

FOREIGN BUSINESS PRACTICES



U.S. DEPARTMENT OF COMMERCE

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Materials on
practical aspects
of exporting,
international
licensing and
investing

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Materials on practical aspects of exporting, international trading and investing



U.S. DEPARTMENT OF COMMERCE
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FOREWORD

The conduct of international business is a mixture of exporting, licensing and investment. This publication is an effort to bring together basic information on international business primarily to assist those entering the field for the first time. These articles, written by members of the Foreign Business Practices Division, should provide enlightenment on the possibilities for profit from diversified marketing techniques.

The subjects covered include surveys of the requirements governing termination of agency agreements with foreign distributors, the present conditions with respect to resolution of trade disputes through international commercial arbitration. There is a review of the international treaties and conventions affecting industrial property rights, summaries of the patent and trademark protection available in foreign countries, and data on foreign licensing and foreign joint ventures. Information is also provided on the use of several important vehicles for conducting foreign operations—Domestic International Sales Corporations (DISC's), Export Trade (Webb-Pomerene) Associations, and Western Hemisphere Trade Corporations (WHTC's).

This publication is intended only as an introduction and is not a substitute for professional advice. The services of a qualified person should be sought if legal or other assistance is required.

Travis E. Reed
Assistant Secretary for
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LAWS RESTRAIN AGENCY AGREEMENT TERMINATIONS

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Ending an agency agreement isn't always as easy as entering one.

A striking characteristic of international trade law is its similarity in almost all national legal systems. Businessmen are accustomed to arranging their contractual relations with their counterparts in other countries in accordance with the free will of the parties. Exceptions to this exist, however, and this article deals with an area in which a number of countries have enacted laws that may override private agreement—that of the principal-agent commercial agreement.

This agreement is the legal instrument by means of which U.S. suppliers establish their commercial relations with their distribution outlets abroad. For uniformity we will refer to these contracts as agency agreements, although they are also known under other names, such as distributorship agreements. The considerations set forth below apply to all types of arrangements.

Distributors purchase goods outright from the principal and sell for their own account to customers within the agreed territory. Agents, on the other hand, do not make purchases from the principal, but merely act on his behalf. Title to the goods remains with the principal until completion of the sale by delivery.

The agreement is usually drafted to specify the duties and obligations of the parties. However, developments may occur that create a need for the supplier to terminate or amend the original agreement. The agent or representative may not live up to initial expectations, by reason of lack of effectiveness or incapacity for further development. In other cases, structural or policy changes by the supplier may compel termination of the agency and replacement of the agent, or indicate the need for basic changes in the agency agreement.

To deal with the problems which termination may create from the agent's point of view, some foreign governments have enacted protective legislation establishing special requirements and procedures to compensate the agent when the agency is terminated by the supplier.

The majority of countries have not enacted special legislation penalizing or precluding the termination of agency agreements. These countries, which are not covered in this article, recognize in general terms the principle that parties are free to establish their mutually agreed legal terms and conditions. This freedom includes the right to express the intentions of the contracting parties as to termination; violation usually subjects the

offending party to damages. The principal countries in this category are the United Kingdom, Canada, and Australia.

In those countries with protective legislation, the thrust of the laws is to go beyond the written agreement to the underlying basis of principal-agent relationship. They recognize that the agent has a proprietary interest in the goodwill and local market he has created for the principal's product. Accordingly, an economic value is assigned to this interest, and the law entitles the agent to share a part of this value as compensation for the loss of distribution rights.

Several kinds of laws govern the principal-agent relationship. Special statutes represent a typical approach to the problem. The Civil and/or Commercial Codes often apply in the absence of special legislation and frequently they strengthen the position of the local agent when there are omissions in the special laws. A number of countries have enacted labor laws that extend to agents the same remedies for dismissal that are extended to employees. These labor laws only apply when the agent is a natural person and not a corporation or juridical person. A survey of these protective laws shows that they possess many common characteristics. Illustrative examples follow:

- All laws tend to strengthen the agent's position under the contract, obliging the principal to compensate the agent according to scheduled rates for damages or losses caused by termination of the agency agreement without just cause. These protective laws relate the words just cause or any equivalent thereof to situations where there has been termination of the contract according to the law or the terms of the agency contract. Such laws then list and describe the reasons and situations under which an agency agreement may be validly terminated; i.e., incompetence of the agent and serious decrease in sales or distribution due to circumstances attributable to the agent. The contract terms are valid if they do not violate any specific provisions of the protective laws.

- Laws declaring unwavable the compensation and perhaps other rights granted to the agent by the protective legislation.

- Laws that establish the law of the forum as sole applicable law; these preclude the parties from validly electing some other country's laws to govern the contract.

for discharging employees without just cause. Countries that have clearly applied labor laws to agents are included in this article. However, it should be noted that the courts of other countries may also construe their labor laws to give agents protection similar to that provided to employees.

- Laws requiring that the agent be given notice of the termination some time prior to its effective date. Some of these laws require compensating the agent for the accrual of commissions during the notice period. Other laws require the principal to compensate the agent for the good will generated by the agent during the life of the agency agreement. In certain cases the compensation may take the form of a pension.

- Laws that allow an agent wishing to contest a notice of termination to submit the controversy to arbitration to determine whether the principal has just cause for ending the relationship.

- Laws conditioning the refusal to extend an expired agency agreement only upon a showing of just cause.

American suppliers with agents in countries where these laws apply should be aware of their provisions when entering or canceling agency agreements and should seek to conduct such arrangements in a manner best suited to avoid possible liability. Special care should be taken that all contractual provisions are valid under the laws of each country in which the supplier and agent will conduct their business, and that the agreement fulfills the requirements of local law.

The following countries have enacted protective legislation affecting agency terminations. The descriptive comments are intended to serve as a general guide in the belief that they reflect the situation at the time of writing. Nevertheless, it should be borne in mind that commercial laws and practices are constantly changing and that countries from time to time enact new laws according to local needs. Readers are urged to consult legal counsel to determine how their legal rights would be treated under local conditions.

EUROPE

Austria—Provisions of the Mercantile Agents Law supplement agency agreements as to matters not covered by the agreement. Waivers of the agent's rights are not recognized. The law establishes expiration notice terms which vary in relation to the duration of the agency. The parties may agree on shorter notice terms, but if the contract does not provide for notice, the terms set by the law will apply.

Agents are entitled to indemnification for unjust and/or premature termination of the agreement; termination without due service of notice; any restriction of the agent's commercial activities after termination, and for termination of the agreement due to fault of the supplier or his bankruptcy.

Unlimited termination of exclusive agency agreements. Indefinite Term Agreements," protects such agents against "unjust" termination. A law of July 30, 1963, extends to nonexclusive representatives the same protection against the unjust termination of an agency agreement.

The parties to the agency agreement are free to stipulate whatever terms they mutually agree upon. However, they may not amend, revoke or waive any of the rights to which the agent is entitled by law. Since only Belgian law is applicable to the contract, choice of law clauses are not recognized.

The termination of both exclusive and nonexclusive agency agreements which have no definite expiration date creates a liability for the severing party, unless there is mutual consent to the termination or the other party has failed to meet its obligations under the agreement. To terminate any indefinite term agency agreement without liability, the severing party must give adequate notice to the other party and mutual agreement on the terms of severance must be reached. In the absence of such mutual agreement, the compensation due the agent for termination by the principal may be determined by referring the matter to the courts.

If a principal terminates an agency agreement without justification, he, in addition to his liabilities under the contract, becomes liable to compensate the agent for (1) the value of any increase in goodwill for the principal's business caused by the agent, (2) the agent's expenses incurred in developing the agency and (3) the amount of any compensation claims discharged employees of the agent may have under Belgian law.

The Belgian Civil Code provides that both exclusive and nonexclusive agency agreements which have a definite date of expiration may be terminated on such date without liability. The party responsible for terminating a definite term agreement before its expiration date is liable to the other party for damages, unless the severance is accomplished by mutual consent or is caused by a failure of the other party to meet its obligations under the agreement. In case of termination for a breach of obligation by the other party, notice of termination must be given by the terminating party, and failure to give such notice makes him liable for damages.

Denmark—The principal-agent relationship is governed by Act No. 243 of May 8, 1917, as supplemented by a 1918 law, which gives the Chamber of Commerce the authority to render opinions concerning unjustified agency terminations. Under Act 243 the parties may terminate the relationship at any time without serving notice, except in cases where the parties have provided otherwise in their agreement. However, (1) an agency may not be terminated without compensation if the agent is entitled to a continuation and (2) any post-termination restriction on an agent's commercial activities may not exceed 2 years. The Chamber of Commerce recommended practice is to give agents 3 to 6 months' notice upon any termination and from 6 to 12 months'

compensation based on annual gross commissions averaged over the last 3 to 5 years of the relationship. Furthermore, a terminated agent may claim compensation for the goodwill generated by the agent and taken over by the principal.

France—The principal-agent relation is governed by the Commercial Code and decree of December 1958, and the Labor Law as supplemented by laws of July 17, 1937, and Mar. 7, 1957.

Choice of law clauses are allowed; waiver of agent's rights is not recognized. Labor laws apply when agent does not sell under his own name, or on his own account. Definite term agreements terminate on expiration date of contract, if extended after expiration, they are governed by rules on indefinite term agreements.

Premature termination of a definite term agreement, and/or failure to renew a definite term agreement, except for just cause, entitles agent to claim compensation on the basis of: all stipulated benefits resulting from the contract; salary equal to all direct and indirect benefits that would have accrued until expiration of the contract; compensation for breach of contract, except when termination was based on just cause; and number and value of accounts developed by the agent.

The same compensation based on number and value of accounts developed is due an agent upon termination of any agreement, in the event of permanent and complete inability to work, as the result of accident or illness. Indefinite term agreements may not be terminated except for just cause and with due service of termination notice. Violation of the foregoing entitles agent to claim compensation on the basis of: salary payments equal to all benefits that would have accrued during the notice period; compensation for breach of contract, including unconfirmed orders, and number and value of accounts developed by the agent.

Exclusive importers and distributors are governed by provisions of the Commercial Code, and decree of December 1958. Under these laws a definite term agreement terminates on the expiration date of the contract. A definite term agreement, if extended, becomes an indefinite term agreement and may only be terminated for just cause and with service of notice of termination.

A supplier is liable for damages for unjust termination of the agency agreement, for premature termination or termination without notice.

Germany, Federal Republic of—The Commercial and Civil Codes apply to the principal-agent relation. The Codes have been supplemented by the Law of Aug. 6, 1953, relating to agents being independent contractors, and by Decree of Dec. 23, 1958, relating to agents engaged in buying and selling for the account of another. Under the law choice of law clauses are allowed; waivers of agent's rights are not recognized.

The Commercial Code provides minimum termination notice terms. These vary in relation to the duration of the agreement. An indefinite term agreement may be terminated upon due notice and for just cause. Failure to give notice of termination may only be excused for just cause. Compensation generally amounts to benefits

that would have accrued during the omitted notice period. Additional compensation may be claimed for goodwill developed by the agent, but the maximum compensation may not exceed an average year's commission.

The following rights may not be waived by the agent: indemnification for unjust or premature termination of the agreement; restriction of agent's commercial activities after termination for more than 2 years.

Italy—The principal-agent relation is governed by provisions of the Civil Code. When the agent is paid a salary, Law No. 562 of March 18, 1926, also applies. The Code and Law 562 require that termination notice be given the agent. The length of notice varies in relation to the nature of the agency (commercial or industrial) and the duration of the employment.

Definite term agreements terminate on the expiration of the agreement. Notice is not needed. A party may terminate an agreement at any time for just cause, and by giving notice of termination on the other party. Failure to give notice when required makes the principal liable to pay compensation for estimated earnings that would have accrued during the notice period and a proportion of commissions received during the preceding year.

Under Law 562 an agent is entitled to compensation for dismissal without service of notice. The amount is based on salaries that would have accrued during the notice period, and severance pay amounting to not less than one-half monthly salary for each year of employment.

Termination of the agreement without just cause makes the principal liable for compensation, computed as a proportion of commissions received during previous year or life of agency. If the agreement is terminated by the principal without just cause and without giving notice of termination, the principal also is liable for compensation based on estimated earnings that would have accrued during notice period.

Malta—No special protective legislation. Principal-agent relation governed by provisions of the Commercial Code and Civil Code. Generally, a definite term agreement terminates at the expiration of the agreement. An indefinite term agreement may be terminated at any time by giving notice of termination to the other party.

Upon termination of agreement the principal must safeguard agent's rights to any earnings for business being transacted. No notice is required by either party when the agency is terminated due to bad faith.

Netherlands—Principal-agent relation governed by the Commercial and Civil Codes, supplemented by laws of November 1936 and March 3, 1965. The law provides minimum terms for serving notice of termination. Parties may agree on longer terms. In the absence of termination provisions in the agreement, minimum periods established by the law apply.

A definite term agreement terminates on the expiration of the agreement. However, if parties continue to operate under the agreement after expiration date, it is

Termination of an agreement without adequate notice makes a principal liable for compensation. The damages may optionally include actual damages suffered, or commissions that would have accrued during the termination period.

Exceptionally, and only for just and urgent causes, an agreement may be terminated without notice, provided the other party is immediately advised of such causes, violation of the foregoing makes a principal additionally liable for compensation of 1 year's earnings. Under the Law of March 3, 1965, if an agent is dependent on no more than two suppliers, the regional Labor Office must previously approve the termination of the agreement.

Norway—According to the Norwegian Agent Law of June 30, 1916, as amended by the law of June 1, 1973, an agent is entitled to compensation should the principal give less than 3 months' notice of termination, regardless of whether a period of notice has been included in the agency agreement. If the appointment has lasted for less than 1 year, the notice of termination should be 1 month. The agent is also entitled to reasonable compensation for relevant investments he has made in agreement with the principal and to commission sales made by him or through his cooperation. This applies even though sales are concluded after the termination of the agency, provided the purchaser's orders have reached the principal or the agent prior to termination. The agent is also entitled to commission on orders considered to have resulted from his work while he held the agency. In the event of lack of proof of the size of the commission due and the agency having been in force more than 1 year, the commission shall be 3 months' commission based on the average monthly commission of the last year. This rule does not apply if 6 months' notice is given. However, if the principal terminates the agency for a valid reason (i.e., failure of the agent to fulfill his duties and obligations under his appointment), the agent will not be entitled to any of the compensations described above. It is deemed to be unfair competition to substitute one agent for another without giving the substituted agent prior notice of such change.

Spain—Both the Spanish Civil and Commercial Codes regulate the relationship between principal and agent. Although there is no law specially covering the termination of agency agreements, an agent who is a natural person may have rights under the Labor Laws, particularly those found in Decree No. 2412/62, dated July 21, 1962.

The principal and agent are free to stipulate to whatever terms they agree upon, including provisions for cancellation of the agency. In the absence of provisions to the contrary in the agreement, the Commercial Code allows the principal to terminate the agency at any time upon giving notice to the agent. However, the principal is obliged by law to pay the value of the agent's effort to

make compensation to such person. Unless otherwise established by the terms of the agency contract, such compensation is to be determined by the courts. Such determination must fall within the following range: the equivalent of no less than 2 months' and no more than 2 years' earnings under the agreement. This indemnity is to be computed on the basis of the average income over the last 2 years or the entire term of the relationship, whichever has been shorter.

Sweden—The Act of April 18, 1914, as amended by Law 219 of May 1974, governs the principal-agent relationship to the extent that the agency agreement, commercial practice or custom do not otherwise provide. Where specifically provided, however, the law will prevail over the agency agreement, commercial practice or custom. As supplemented by the Swedish Labor Code, this law also regulates the employer-employee relationship of travelling salesmen.

A notice of termination is required to terminate indefinite term agency agreements. The required notice term is 3 months for indefinite term agreements which have been in effect for 1 year or more. The period of notice for such agreements, which have been in effect for less than a year, must be at least 1 full calendar month after the month in which notice is given. The agent cannot waive such notice requirements. However, no notice is required when an indefinite term agency contract is terminated by the principal based on just cause.

Fixed term agreements, or contracts for specific business ventures, terminate at the expiration of the contract term or completion of the business venture. Fixed term agreements may be prematurely terminated by the principal only in the case where the principal has just cause for so doing. Law No. 219, which went into effect on July 1, 1974, is somewhat ambiguous on the question of whether or not there is a notice requirement for terminating fixed term agreements. Therefore, prudence would suggest that notice be given even when the principal has just cause allowing him to prematurely terminate a fixed term agreement without liability.

The principal has just cause, allowing him to prematurely terminate a fixed term agency agreement without incurring liability or an indefinite term agency without giving notice, when (a) the agent has been derelict in his duty to the principal, (b) the agent is in bankruptcy; or (c) the agent has breached the contract in such a manner that no reasonable cause exists for continuing the agreement.

In cases of unlawful termination by the principal of the relationship, the agent will normally be entitled to reasonable compensation for losses incurred. This includes the agent's costs for investments in buildings, stock, machinery, transportation facilities and similar assets, which he has made in furtherance of the agency and with the consent of the principal. The agent can, with binding effect, waive his right to such reimburse-

ment only if the waiver is made when the investment is effected.

The agent has a right to receive commissions on sales completed after the agency has been terminated provided such sales resulted from the agent's efforts.

Switzerland—The principal-agent relation is governed by the Swiss Code of Obligations. The law of agency agreements, dated January 1, 1950, has been included in the Code.

Choice of law clauses are not recognized, nor waiver of agent's right to compensation, nor clauses rendering an agency irrevocable. If the agreement does not provide for termination, the law stipulates a 3 month minimum period for giving notice of termination. Notice is not

required to terminate definite term agreements. If the parties continue to operate under the agreement after termination it is deemed to have been extended for another year.

An agent may claim compensation from the principal for unjust termination of the agency, act of the principal unduly preventing agent from free exercise of the agency, and when the agreement restricts the agent's future commercial activities after termination of the agency.

Compensation generally amounts to 1 year's net profit.

The conference of Swiss Association of Commercial Travelers and Agents has drafted an Agency Agreement form. This form includes a model agency termination clause.

CENTRAL AND SOUTH AMERICA, AND WEST INDIES

Argentina—Principal-agent relations are basically governed by the Civil and Commercial Codes. No special legislation covers the termination of agency agreements. However, when the agent is a natural person the agency may be regulated by Labor Law No. 11,544 of 1929, as amended, and successive laws and decrees (particularly law No. 14,546 of 1958) which extend labor law benefits to business agents. The parties may not select foreign laws to govern the agreement. If a contract is executed abroad to avoid Argentine law such effect will not be enforced by the Argentine courts.

The Civil and Commercial Codes permit a principal to terminate an agency agreement at his discretion. However, the terminating party may be liable for damages resulting from a wrongful termination. All agreements whether for a definite or an indefinite term should include a notice of termination clause.

Labor laws similarly require the service of a termination notice some time prior to the actual termination date; otherwise, the principal may be liable to the employee for earnings that would have accrued during the notification period. The amount of compensation is proportional to the duration of the agency, in all discharge cases, except for those based on a just cause, the agent is entitled to compensation amounting to 1 month's remuneration or commission for each year of service.

Bolivia—The Civil and Commercial Codes govern the principal-agent relationship. No special legislation has been enacted to protect an agent from the termination of the agency agreement. Natural person agents are entitled to claim labor law benefits by virtue of the law of December 3, 1927. Contracts are based on mutual agreement of the parties. However, waiver of legal rights is not recognized by law. Except for breach of contract, or by mutual agreement of the parties, a definite term contract may not be prematurely terminated. Indefinite term agreements require a termination notice served in accordance with such notice requirements and termination conditions as are provided in the agreement. Wrongful termination of an agency contract makes the breaching party liable for damages.

The labor law allows a principal to discharge an agent only for a just cause, otherwise, the principal is liable for compensation which includes severance pay. The amount of compensation depends on the duration of the agency. The principal must also serve notice some time prior to the termination to validly terminate the relationship. Failure to serve such notice subjects the principal to liability to the agent for earnings or commissions which would have accrued during the notice period.

Brazil—The principal-agent relationship is governed by Law No. 4886, in force as of December 10, 1965. Although the parties may freely stipulate the terms of their agency contracts, provisions on the following must be included: the conditions and general requirements of the representation, an identification of the products subject to the representation, the period of representation, whether definite or indefinite, the terms and time of payment for carrying out the representation, the zone in which the representation will be exercised (including (1) whether the principal is excluded from doing business within the zone, (2) whether such exclusivity is partially or wholly guaranteed, and for what period, and (3) the restrictions, if any, to zone exclusivity). A provision for the indemnity due the agent upon the principal's terminating the agreement without notice is also required, and this indemnity must not be less than one-twentieth of the compensation earned during the representation.

Agency agreements may be terminated for just cause. Under law 4886 the definition of just cause is limited to the following: the agent's negligence; the agent's breach of the contract; acts by the agent damaging to the principal; and conviction of the agent for a serious criminal offense.

Fixed term agreements terminate on the date provided. Indefinite term agreements are terminable without just cause only during the first 6 months. In all cases, except when other provisions for termination have been agreed upon, service of notice prior to termination is obligatory. If the principal fails to serve such notice compensation is due the agent amounting to one-third of

the earnings accrued during the last 3 months just prior to termination.

Colombia—The Commercial Code of Colombia as set forth in Decree No. 410 of March 27, 1971, governs commercial agencies. This includes provisions covering the termination of agency agreements and establishing liability for the unjust termination by the principal.

Although the parties are free to stipulate to the terms of their mutual arrangement, the agency contract must provide for the scope of the agent's authority, the duration of the relationship and the territory encompassed by the agency. Unless otherwise provided in the operative agreement, the agency is presumed to be exclusive. Colombian law is the only law that may apply to agency agreements and, therefore, choice of law clauses are not recognized.

If the principal should terminate the agency contract under circumstances which are not the fault of the agent, the agent has the right to claim compensation from the principal in the amount of 1 month's commission, or such other remuneration as is provided by the contract, for each year the contract has been in effect. However, such amount may not exceed a total equivalent of 3 months' remuneration provided under the agreement. The agent also has a privileged lien against the principal's goods in his possession, to assure full payment of the compensation due him.

If the principal terminates the agency relationship without just cause, the agent may also claim compensation for his success in establishing or building up goodwill for the principal's business. The amount of such compensation will be determined by the courts, taking into account the amount of time the agent has represented the principal under the agreement and the volume and importance of the principal's business conducted by the agent.

The causes justifying termination of the agency agreement by the principal are (1) a breach by the agent of his contractual or legal obligation to the principal, (2) an act or default of the agent which results in damage to the principal's business interest, (3) the agent's bankruptcy, or (4) the liquidation by the principal of the business activity on which the agency contract is based. In the event the agency is terminated for any of these listed reasons, the principal is not obliged to compensate the agent.

Costa Rica—Provisions of the Civil and Commercial Codes govern the agency contract. Termination of agency or distributorship agreements, and the remedies attached thereto, are regulated by Law No. 4684, which was promulgated on December 4, 1970.

Under the Codes the parties may freely stipulate the terms of their contracts. However, any waiver of the agent's lawful rights is invalidated by Law No. 4684.

A principal may be liable to compensate the agent in any of the following situations: termination of an agency without just cause, unjust refusal to renew an expired agency agreement, and termination of the contract for causes unrelated to actions of the agent. Compensation under Law No. 4684 is the equivalent of 2 months' gross profits for each year of services, or

fraction thereof in excess of 6 months. However, compensation may not exceed the equivalent of 6 months' gross profits. Indemnification may not be applied to the principal to purchase the agent's stock of the principal's product at warehouse cost price.

Law No. 4684 defines just cause for termination of the principal as any crime by the agent, fraud by the principal, the agent's negligence or ineptness, revocation of trust by the agent, a breach of contract by the agent, or breach of the agent's obligation to the principal.

Dominican Republic—Agency agreements are governed by the Civil and Commercial Codes. The solution of agency agreements is covered by Law No. 263, dated December 31, 1971, which amended Law No. 173 of April 6, 1966. The 1971 law affords specific remedies for unjust termination of the agreement, if the agreement has been registered at the Central Bank of the Dominican Republic within 60 days of its execution.

Although the parties to an agency agreement are free to stipulate as to its terms, Law No. 263 must be accepted in any waiver by the local agent of his rights. It may not obligate the principal or any substitute, including his replacement acting on the principal's behalf, to the person or firm acquiring the right to act under the agreement, to compensate the agent for his damages in the event (1) the agent is unjustifiably dismissed or substituted, (2) the principal, his assignee or representative terminate or refuse to renew the agreement without just cause, or (3) the principal, his assignee or representative take over the agent's business without just cause.

The agent's damages for unjust termination include refusal to renew an agency agreement may cover losses the agent has suffered because of his past efforts on behalf of the principal's business, including (1) Labor Law employee compensation obligations to the agent, (2) the actual value of all investments and expenses the agent incurred in setting up and running the business, (3) the value of the agent's investment in stock, and (4) the value of the agent's lost profits. The principal may also be obliged to pay an additional amount equal to the total of the agent's net profits for the previous 5 years. If the agency has been in effect for less than 5 years, the compensation is set at the average annual profit during the previous year of actual representation.

Just cause for a principal's refusal to renew, or terminating, an agency agreement is set forth in Law No. 263, as follows: (1) breach by the agent of any of the essential obligations of the contract, or (2) any action of commission by the agent which substantially impairs the principal's interest in the promotion or development of his business.

Ecuador—No special legislation has been enacted to protect the agent from termination of the agency agreement. The Civil and Commercial Codes regulate the principal-agent relationship. These Codes permit a principal to terminate an agency agreement at his discretion provided that a notice is given to the agent prior to the date of termination.

However, under Article 267 of the Labor Code, natural persons acting as agents may claim the same protection from dismissal as do employees. Under the Labor Code just cause is the only ground for unilateral termination of the employment or agency contract. If the contract has run for more than 6 months a notice must be given 1 month prior to termination. Failure to give such notice makes the principal liable for 2 months remuneration, in addition to any other compensation due.

According to the Labor Code agreements for an indefinite term may not be unilaterally terminated until after the agreement has run for at least 1 year. Even then, just cause and adequate notice are required. Unjust termination subjects the principal to liability for compensating the agent an amount equal to 25% of his previous month's earnings multiplied by the number of years of his service as an agent.

In the case of fixed term agreements, the Labor Code remedies a premature termination by making the principal liable to compensate the agent 25% of the remuneration that he would have otherwise earned over the remaining period of the contract. This liability for premature termination is doubled if the contract is terminated without just cause. Unless notice is given prior to its expiration date, a fixed term contract is automatically renewed for an identical period.

By reference to article 133 of the Labor Code just cause for termination by the principal may include such conduct by the agent as unjustified and repeated acts of insubordination, breach of the agreement, immoral or dishonest conduct, incompetence and grave disparagement of the principal or its product.

El Salvador—The law regulating principals and agents is found in the Commercial Code (Decree No. 671 of January 1, 1971, as amended by Decree No. 247 of January 9, 1973).

Agency contracts may be terminated by either the principal or the agent by giving written notice 3 months prior to termination. However, a principal may not terminate, modify, or refuse to renew an agency contract without just cause. If a contract is unilaterally and unjustly terminated, the injured party has a right to claim damages.

An agent whose representation is unjustifiably terminated, may claim (1) the unrecoverable expenses which he has incurred for the benefit of the agency, (2) the value of the physical assets of the agency which have no alternative use, including equipment, fixtures, furniture and implements, (3) the value of this unsalable merchandise, stock and accessories; (4) an amount equal to his gross profit experience, not to exceed the latest 3 years of representation; and (5) the value of credit he has extended to purchasers of the principal's products.

As amended, the Code defines just cause for termination as a (1) breach by the agent of the contract, (2) the agent's fraud or abuse of the principal's trust, (3) the agent's incompetence or negligence, (4) a continued decrease in sales for reasons attributable to the agent; (5) the disclosure by the agent of confidential information, or (6) any act of the agent reflecting adversely on the

agency, the principal's products or their sale and distribution.

If the principal is found to have dismissed an agent without just cause, the principal may not import his products, trademarks or services into El Salvador until the compensation lawfully due to the agent is paid in full.

All controversies between a principal and his agent must be decided by the local court having jurisdiction over the agent.

Guatemala—The principal-agency relationship is governed by the Commercial Code of Guatemala, which is set forth in Decree No. 2-70 of May 1970. Termination of agency agreements is covered by Decree No. 78-71 of September 25, 1971. According to the more recent decree, a principal is allowed to terminate the agreement with his agent by mutual consent, by expiration in accord with the terms of the contract, or when the principal has just cause as provided by law.

Just cause for the principal's terminating the agreement is defined as any of the following: (1) a breach by the agent of any of his contractual obligations to the principal, (2) the commission by the agent of a criminal offense against the person or property of the principal, (3) the unjustified refusal by the agent to render accounts due or proceeds of liquidation in accord with the terms of the contract, (4) the agent's disclosure to third parties of confidential information entrusted to him by the principal, or (5) a decrease in sales of the principal's product or services due to the agent's fault.

In the event of an unjust termination by the principal, the agent may claim as compensation an amount including (1) the previous year's direct and promotional expense incurred by the agent in carrying out the agency, (2) the cost of all unrecoverable investments made by the agent in pursuance of the contract, (3) the value of any unsold merchandise in the agent's possession, (4) 50% of the presumed gross profits on the sale of such unsold merchandise, and (5) an amount equal to the prospective profits to the agent for the remaining term of the contract or for 3 years, whichever is less. The principal is also liable to the agent for all Labor Law compensation claims dismissed employees of the agent may have as a result of the termination.

The parties may mutually consent to the amount of compensation due the agent for unjust termination by the principal, and in case of an unresolved dispute as to such amount the issue will be determined by the courts. If the principal has been sued by the agent for unjust termination, he may be prohibited from conducting business in Guatemala, either directly or indirectly, until the suit is settled or the agent's claim is paid. The principal may avoid this prohibition on doing business in Guatemala by posting a bond to guarantee payment of the amount of any possible damage claim against him. A continuation of business under prohibition and without securing such bond will subject the principal to a fine ranging from \$50 to \$5,000 (50 to 5,000 quetzales).

Haiti—No special legislation has been enacted protecting the agent against termination of the agency

agreement. The Civil and Commercial Codes govern the principal-agent relationship. However, natural persons acting as agents may claim the same benefits for dismissal under the labor laws as do employees.

Under the Codes the parties may freely stipulate the conditions of their agency contract. However, the following provisions must be included in the agreement: an identification of the agency territory, a list of the respective duties and obligations of the agent and principal, the remuneration to be paid to the agent, the duration of the agreement, the requirements for service of a termination notice and the jurisdiction governing the agreement.

Under the labor laws a waiver of legal rights is not recognized. Notice of contract termination is required except when the contract is terminated for just cause. The amount of notice that must be given in advance of the termination date varies from 8 days for contracts having been in effect for 3 months to 1 year, to 2 months' notice when a contract has been in effect for more than 10 years. Failure to give the appropriate notice subjects the principal to liability for the remuneration to which the agent would have otherwise been entitled had such notice been given.

Honduras—The Civil and Commercial Codes regulate agency contracts. Decree No. 50, in force as of October 16, 1970, governs the conditions and consequences of terminating agency contracts.

A principal may not terminate, modify or refuse to renew the agency contract except for just cause. Termination without just cause subjects the principal to liability for the damages suffered by the agent. Compensation for such damages may include the value of the agent's investment in premises, equipment, installation, furniture and utensils, which have no alternative use, the agent's outlay for unsalable merchandise, stock and accessories, the value of that portion of goodwill generated by the agent's own effort, determined by considering the duration of the agency, the proportional share of the principal's sales or service volume in relation to the agent's total business, the share of the Honduras market such volume of the product or service represents, and any other factor quantifying goodwill.

Just cause for the termination of the contract by the principal is defined as the agent's breach of contract, his fraud or abuse of the principal's trust; his disclosure of confidential information; or any act attributable to such agent which reflects adversely on the business operation.

Mexico—No special legislation protects the agent in case of termination of agency agreements. The principal-agent relationship is governed by the Civil and Commercial Codes. These Codes permit a principal, unless otherwise provided in the contract, to revoke the agency at his discretion. However, a wrongful or premature termination of the agency may make the principal liable for compensatory damages. Appointment of a new agent for the business amounts to a revocation of the old agency contract.

On the other hand, by virtue of Article 285 of the

Federal Labor Law of April 1, 1970, natural persons acting as agents may claim the same protection from dismissal as is afforded to employees, including the right to compensation for an unjust termination of the employer-employee relationship. In the case of fixed term agreements which do not exceed 1 year, the compensation specified for premature and unjust termination is set at one-half the value of the remuneration previously earned by the agent under the agreement. If a fixed term contract has run for more than 1 year the compensation then is set at the value of 6 months' remuneration plus 20 days' remuneration for every year of service after the first year. In the case of indefinite term contracts the compensation amounts to 20 days' remuneration for each year of services rendered. The agent is also entitled to receive an additional 3 months' earnings plus accrued remuneration from the date of dismissal to the actual date the principal pays him all the compensatory damages due.

Nicaragua—The Civil and Commercial Codes govern agency agreements. Law No. 287 of February 2, 1972, entitled, "Law on Agents, Representatives or Distributors of Foreign Firms," covers the termination of agency agreements and establishes the compensation due to the agent for the unjustified termination of the agency relationship by the principal.

Nicaraguan law is the only law that may apply to agency agreements and, accordingly, choice of law clauses are not recognized. Although the parties are free to stipulate the terms of the agency contract, they may not amend, revoke or waive any of the rights to which the agent is entitled by law. These rights obligate the principal or any substitute, intermediary or replacement acting on the principal's behalf, and any person or firm acquiring the right to act under the agreement, to compensate the agent for his damages in the event the principal, his assignee or representative has no just cause for (1) dismissing or substituting the agent, (2) unilaterally terminating the agreement, (3) refusing to renew an expired agreement, (4) taking over the agency, or (5) increasing the number of representatives in Nicaragua.

Law No. 287 provides that the agent's compensation for unjust termination by the principal may include the agent's unrecoverable investments and expenses which he has incurred in furtherance of the agency. Such compensation also includes the agent's constructive loss, which is to be determined by reference to the amount of time that has expired under the agency agreement. This varies from 25% of the agent's expected gross earnings for a 3-year period if the contract has been in effect from 3 to 6 months, to 100% of the agent's gross earnings during the previous 3 years, if the contract has been in effect for more than 3 years. Furthermore, the agent retains his right to all claims against the principal that are given him by equity, and may require the principal to buy back his stock at whatever cost, including the purchase price, freight, taxes and other expenses, the agent may have had to incur to obtain and maintain such stock. In cases where the principal has increased the number of representatives without just

cause or mutual agreement, the agent may claim compensation to the extent of 80% of the constructive loss compensation that would have been due him had the agency been unjustly terminated.

The parties may mutually consent to the amount of compensation due to the agent for unjust termination by the principal, and in the case of an unresolved dispute as to such amount the issue will be determined by the courts. Any claim maintained by the agent must be filed with the court within 2 years of the act giving rise to such claim. To guarantee full payment to the agent on a favorable determination of his claim by the courts, he may retain as a preferential creditor all the principal's merchandise he has on hand. Furthermore, the Ministry of Economy, Industry and Commerce may suspend the principal's right to import goods into Nicaragua until he has compensated the agent in full or guaranteed such payment upon settlement by the courts.

Just cause for a principal's terminating or refusing to renew an agency agreement is defined as (1) any crime set forth in Nicaraguan Penal Code committed by the agent against the property or interests of the principal, (2) a continued reduction in the sale or distribution of the principal's products due to the negligence of the agent, (3) any acts attributable to the agent which adversely affect the import, sale or distribution of the principal's product, or (4) the bankruptcy of the agent.

Panama—The agency contract is regulated by the Civil and Commercial Codes. Termination of the agency contract and remedies for unauthorized termination are governed by Executive Decree No. 344 of 1969, as amended on November 18, 1969, and the rules of practice found in Decree No. 9 of February 7, 1970.

The parties may freely stipulate their contract terms. However, provisions for the waivers of rights or mutual consent terminations are valid only when approved by the Ministry of Commerce.

If a principal can establish just cause, he may without liability terminate, modify or refuse to renew his agency agreements. If the termination is unjustified the principal may be liable to compensate the agent the average 1 year's gross profits for contracts of less than 5 years' duration, twice the average annual gross profits for contracts of more than 5 but less than 10 years' duration, three times the average annual gross profits for contracts of more than 10 years' but less than 15 years' duration, four times the average annual gross profits for contracts of more than 15 years' but less than 20 years' duration, five times the average annual gross profits for contracts with more than 20 years' duration. Such relief may include the principal's purchase at cost of the agent's unsaleable merchandise.

Once it is determined that an agent was unjustly dismissed by his principal, he may not export goods to Panama until the compensation lawfully due the agent is paid. Just cause for termination of the agreement by the principal is defined as the agent's breach of contract, his fraud or abuse of the principal's trust, his negligence or ineptitude, the continued decline in sales or distribution

attributable to the agent, his disclosure of secret information, and any act by the agent harmful to the represented firm or products.

Puerto Rico—The Puerto Rican Civil and Commercial Codes govern the Law of agency. Law No. 75 of June 24, 1964, as amended by Law No. 105 of June 1966, supplement the Codes on the regulation of the principal-agent relationship. Parties are free to agree on conditions and terms of the representation. However, except for just cause, a party may not unilaterally terminate the representation, refuse to renew an expired agency agreement, or perform any act detrimental to the permanence of the established relationship. Termination of agency agreement without just cause is considered a tortious act and makes the offending party liable to pay compensation to the injured party. Clauses waiving any of the agent's rights provided by law are invalid.

In the event of unjust termination of the agency by the principal, the agent has 3 years from the date of actual termination, or the occurrence of an act detrimental to the permanence of the representation, to file a claim for compensation. This compensation may include (1) the actual value of expenses incurred by the agent in setting up and running the business, (2) the value of the agent's inventories and stock, (3) the loss of the agent's profits and (4) the value of his goodwill. The agent may also claim an amount equal to his profit experience for the previous 5 years, or, if the agency existed for less than 5 years, five times the average annual profit.

Just cause for the principal's termination of the agreement is defined as (1) the agent's non-performance of essential obligations under the contract or (2) any act or omission by the agent which substantially and adversely affects the principal's interest in the promotion, marketing or distribution of the merchandise or service in question.

Venezuela—The Civil and Commercial Codes govern the rights and duties of an agent operating in his own name for the account of his principal. When an agency agreement for a fixed term expires according to its terms, no notice is required. However, a notice is required for the termination of an agency agreement of indefinite term. When the principal unjustly terminates an agency, in which the agent has made a substantial investment, the principal is liable to the agent for his losses.

The Labor Law of November 3, 1947, as amended by Decree No. 123 of June 1974, regulates the treatment of employees. This law may entitle unjustly discharged agents to the same benefits as discharged employees. Furthermore, Venezuelan Courts will not recognize the agent's waiver of these employee rights. Under the Labor Law, an employee may obtain compensation for wrongful or unjust dismissal from his job. This amounts to half a month's current salary for each year of employment, plus severance pay of 15 days' wages for each year of employment (severance may not exceed 8 months' wages).

Egypt—Decree No. 1906 of December 1974, effective December 28, 1974, implements Law 107 of July 1961 and Law 93 of July 1974. This decree governs the appointment and activities of private sector corporations and individuals, not heretofore authorized by Egyptian laws, as agents or representatives of foreign firms.

No special legislation has been enacted to protect the agent in case of contract termination. The principal-agent relationship is governed by the will of the parties expressed in their agreement so long as it does not conflict with the law.

Only Egyptian legal entities or individuals born of Egyptian fathers, approved and registered with the Ministry of Trade, may represent foreign principals. Corporate representatives must be chartered in Egypt and have a majority of Egyptian stockholders and management. Total Egyptian executive and managerial participation is required for partnerships. Furthermore, all commercial representatives must have been permanent residents of Egypt for at least 5 years and have a permanent place of business there. Foreign principals must contract directly with their Egyptian representatives. The agency agreement must clearly define the scope of the agency, establish the agent's responsibility and obligations and set forth the agent's commission or remuneration. Foreign principals represented by agents in the public sector may not appoint private agents until after the expiration of the public sector agent's agreement.

Foreign principals may provide scientific, technical or consulting services when duly registered and authorized by the Ministry of Trade, only while engaged in trade activities and operating a commercial agency in Egypt. The agent's authorization to practice the profession may be cancelled for violations of the country's laws, practices, or willful submission of false information.

Iraq—Principal-agent relation governed by Civil Law (Law No. 40 of 1951), and Commercial Code (Law No. 70 of 1943). Rights granted by the law to the parties may not be waived. Agency agreements may be terminated by any party, at any time, with notice. If third party rights are involved, a principal may not terminate an agency unless consent is obtained from the third party.

Premature termination of an agency, or termination without just cause, makes the terminating party liable for compensation. Compensation is based on an estimate of actual damages resulting from the cancellation. Assessment of damages does not include loss of profits.

An agent or his heirs are also entitled to compensation in the event of termination of the agency by death, bankruptcy, or prohibition to engage in commerce, of either the principal or the agent. The compensation shall be in proportion to the remuneration that would have accrued until the completion of the agreement.

Israel—The principal-agent relationship is governed by the Agencies Act of 1965, supplemented by the non-abrogated provisions of the Ottoman Civil Code.

The parties are free to stipulate to the terms of the agreement which shall govern the agency relationship. Termination or cancellation of an agency agreement and liability for damages resulting therefrom are to be determined according to common law principles. For example, agencies may be terminated by the will of either party, by the terms of the agency agreement, by death or incapacity of any of the parties, or by termination of the business. Although the formal publication of the termination of the agency is not required by law, it is advisable to place a timely notification in a local newspaper to prevent possible liability to third parties.

Jordan—The "Commercial Agents and Intermediaries Law, 1974" which came into effect May 1, 1974, regulates commercial agents and intermediaries, while previous Law No. 29, 1968, remains in effect only insofar as it is not in conflict with the 1974 law. Although the principal-agent relationship is governed by the mutual will of the parties expressed by their agreement, only Jordanian law applies to the agency contract (choice of law clauses are void) and the Jordanian Courts have exclusive jurisdiction to interpret it. Only natural or legal persons of Jordanian nationality may represent foreign principals and corporate representatives must be chartered in Jordan and have a majority of Jordanian stockholders. Furthermore, all commercial representatives must be permanent residents of Jordan and have a permanent place of business in the Kingdom of Jordan. The foreign principal must contract directly with the Jordanian agent or intermediary.

Except when the authorities revoke the agency, the principal is liable to his agent for damages, if he terminates the commercial agency agreement (1) without just cause (2) at a time other than its natural expiration date. Such damages may include the projected profits the agent would have earned if the contract had expired according to its own terms. When the national law or the contract terms are silent or ambiguous on the issue of termination or damages therefor, the parties may apply local law or custom.

Kuwait—No special protective legislation has been enacted. Principal-agent relationship is governed by Commercial Law No. 2 of 1961, supplemented by Ordinance 36 of 1964. Either party may terminate an agency agreement at any time provided notice is given to the other party. Compensation may be due if the agreement is prematurely terminated or terminated without just cause.

If the agreement is silent as to compensation, or the parties cannot agree on amount, the injured party may sue in the courts for damages.

Lebanon—Principal-agent relations governed by Code of Obligations and Contracts, Commercial Code, and Legislative Decree No. 34 of August 5, 1967.

The Code of Obligations and Contracts provides general rules applicable to all types of contracts. This includes agency agreements. Premature termination of a

contract, or termination without just cause, makes the terminating party liable for compensation.

The Commercial Code applies to all agents and employees. Distributors are excluded from its provisions if they are doing business for their own account, representing several firms, and having their own enterprises. Agents and employees are entitled to compensation if the agency is terminated without notice and without just cause. The right to claim compensation depends on whether such agency was their only occupation.

The Legislative Decree of August 5, 1967, supplements the foregoing laws by including within its provisions all agents and distributors not bound by an employment contract. According to this decree waivers of any rights are not recognized; agents or distributors are entitled to claim compensation from the principal in any or all of the following situations: premature termination of the agency, termination of the agency without just cause, or refusal by the principal without just cause to renew an expired agency agreement.

The compensation claim may include actual damages suffered, loss of profits, and compensation for efforts in successful promotion of the agency.

Libya—No special protective legislation enacted. Principal-agent relationship is governed by provisions of the Commercial Code. Definite term agreements terminate on the expiration of the agreement. Indefinite term agreements may be terminated for just cause and with notice to the agent.

An agent is entitled to claim compensation against a principal in the following situations: premature termination of a definite term agreement, without just cause; and termination of an indefinite term agreement without just cause and without notice.

The compensation may amount to 1 month's commission.

Morocco—Principal-agent relationship governed by Dahir of May 21, 1943. This law applies when the agent is not a commercial enterprise.

Code of Obligations and Contracts of August 12, 1913, as amended, applies to commercial representation enterprises. These are excluded from the scope of the Dahir of May 21, 1943.

Under the Code, a principal may, at any time, terminate an agreement. However, if the termination is premature or unjust, the agent may sue for compensation.

The Dahir of May 21, 1943, considers the principal-agent relation as a contract for the "rendition of services." Therefore the agent is treated as an employee of the principal.

This law does not recognize waiver of rights granted to the agent.

The agreement will not be affected by any changes undergone by the principal-employer. A new principal will be bound by the terms of the agreement.

Termination of the business, except in cases of "force majeure," is no excuse for failure to observe the notice requirement.

A definite term terminates at date of expiration.

Even so, a principal may be held liable for refusing without just cause to renew an expired definite term agreement.

An indefinite term agreement may be terminated for just cause and with service of notice of termination. The notice term varies in relation to the duration of the agency. Service of notice is only excused in cases of "force majeure."

Accordingly, an agent may claim the following compensation.

Definite term agreements. For premature termination and failure to renew without just cause.

- a) Any benefits that would have been earned before termination of the agreement.
- b) An indemnity for termination of the agreement, unless terminated for just cause.

Indefinite term agreements. For failure to serve notice of termination, and/or termination without just cause.

- a) Any benefits that would have been earned during the notice term.
- b) An indemnity established on the basis of nature of the service, duration of the service, and damages suffered.

If an indefinite or definite term agreement is terminated by death, accident, or disease, resulting in complete and permanent incapacity of the agent, he, as representative or heirs, are entitled to compensation established on the basis of goodwill developed.

Syria—No special protective legislation has been enacted. The principal-agent relation is governed by the Commercial Law of September 1949.

The parties are free to agree on the terms of their agency contract, including cancellation provisions. In the absence of provisions in the agreement commercial law and customs apply.

Definite term agreements terminate on the date of expiration of the agreement. Premature termination of a definite term agreement may result in damage liability.

The laws require service of notice of termination. The notice term varies in relation to the type and duration of the agency. A two-month term is granted to the principal to appoint a new agent, under penalty of being kept from doing further business.

Turkey—No specific protective legislation has been enacted. Principal-agent relation governed by Commercial Code.

Three months' notice is required to terminate indefinite term agreements; to prematurely terminate for just cause a definite term agreement an identical notice term is required.

Failure to serve notice, or absence of just cause may make a party liable to pay compensation.

An agent is also entitled to claim compensation, if the principal dies, is declared bankrupt, or legally forbidden from engaging in commerce. Additionally, death or incapacity of the agent, may entitle his legal representative or heirs to claim compensation.

The compensation is based on estimated earnings that would have accrued until pending business had been completed.

FAR EAST

India—The principal-agent relationship is governed by Chapter X (Sections 182-238) of the India Contract Act. If the agency is for a fixed period, the party prematurely revoking or terminating without just cause is liable to the other party for compensation. The principal may terminate an agreement prematurely and without liability, if the agent is guilty of misconduct in the due discharge of his duties. However, service of reasonable notice of termination is required. The law does not define the extent of reasonable, and each case is decided according to the particular circumstances. Indefinite term agreements may be terminated by the principal at any time. Service of reasonable notice is advisable.

Agency agreements terminate automatically by (1) expiration of the contract term, (2) death or incapacity of the agent, (3) death or incapacity of the principal, (4) completion of the business or (5) impossibility of execution by reason of law or destruction of the subject matter.

Japan—Principal-agent relation is governed by the Civil and Commercial Codes. Parties are free to agree on

the terms and conditions of their agreement. This includes provisions for termination of the agency.

Under the law a two-month notice of termination must be given to the other party to terminate an indefinite term agreement. However, the parties may provide for longer notice periods. Definite term agreements terminate on the expiration of the agreement but may be prematurely terminated for just cause.

Korea—No special protective legislation enacted. Principal-agent relation is governed by the Civil Code and the Commercial Code enacted as Law No. 1800 of January 20, 1962. The parties are free to agree on the terms of their agreement. This includes provisions for terminating the agency. In the absence of agreement by the parties, an indefinite term agency may be terminated by giving two-month notice. A definite term agreement terminates on the expiration of the agreement.

Under the law, a definite, or an indefinite, term agreement may also be terminated at any time for just cause. The law is not clear whether notice of termination is required in these cases.

CARNETS SIMPLIFY CARRYING OF COMMERCIAL SAMPLES

By BRANT W. FREE
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Carrying commercial samples and professional equipment to foreign markets has become much easier for U.S. businessmen now that the United States has joined the international customs carnet system. The carnet system is designed to permit duty-free entry of certain goods temporarily imported into another country.

U.S. businessmen can purchase ahead of time in the United States a carnet which can be used to pass samples, professional equipment and certain other articles through Customs at the borders of several countries during a single trip. By using the carnet, the commercial traveler reduces the expense and time consuming inconvenience of posting bonds or cash deposits at each border for the goods accompanying him or those sent unaccompanied.

Carnets are international customs documents which serve as guarantees against the payment of customs duties which may become due on goods temporarily imported and not reexported. Besides customs duties the guarantee extends to all other duties and taxes payable on or in connection with temporary importation, including internal taxes and excise duties chargeable on imported goods. Not covered are fees and charges which are limited in amount to the approximate cost of services rendered and do not represent an indirect protection to domestic products or a taxation of imports for fiscal purposes.

The carnet itself is composed of a series of vouchers which list the goods to be covered and the countries to be visited. When leaving the United States, the carnet is presented to a customs officer who certifies that the list is complete and correct. One of the vouchers is removed and retained by the U.S. Customs Service until the goods are reimported. From then on, a voucher is detached each time the carnet holder enters or leaves a country until the goods are returned to the United States. If the carnet-covered goods are sold or otherwise disposed of overseas, the carnet holder is responsible for paying the applicable import duties and taxes, and must certify to that effect for U.S. Customs.

This facility has been made available to Americans by U.S. adherence on Dec. 3, 1968, to five interrelated international customs conventions. They are the Customs conventions on: the ECS Carnets for Commercial Samples, the ATA Carnet for the Temporary Admission of Goods; the Temporary Importation of Professional Equipment; the International Transport of Goods under

Cover of TIR Carnets, and, the Customs convention on Containers. These conventions, together with the earlier International Convention to Facilitate the Importation of Commercial Samples and Advertising Materials, establish temporary importation privileges for specified goods, and provide for the use of carnets to facilitate such importations.

The ECS carnet convention makes available to American businessmen carnets guaranteeing payment of customs duties which would be due on commercial samples (including advertising films up to 16 mm.) temporarily imported into member countries. Each carnet is valid for a period not to exceed 1 year. The items temporarily imported must be reexported within the period of validity of the carnet, and may not be leased or sold while in the territory of importation.

What Is a Sample?

Samples are defined in the convention as articles which are imported solely for the purpose of being demonstrated in the territory of importation for the soliciting of orders for merchandise to be supplied from abroad. This broad definition means that a sample might be an item small enough to fit inside a briefcase or an unaccompanied piece of heavy machinery or equipment. The convention expressly excludes from coverage "identical articles brought in by the same individual, or sent to a single consignee, in such quantity that, taken as a whole, they no longer constitute samples under ordinary commercial usage." Also excluded are unmounted gems, as well as one-of-a-kind mounted gems or pieces of jewelry; handmade one-of-a-kind articles, such as carpets, certain pieces of furniture, paintings, and sculpture.

The ATA carnet convention provides for recognition of carnets for the importation of any goods, temporarily admitted free under other international temporary importation conventions to which a contracting government is a party or under temporary admission procedures of national laws and regulations. Because of its more comprehensive coverage, the use of the ATA carnet is superseding that of the ECS carnet. In fact, the American carnet-issuing organization, the U.S. Council of the International Chamber of Commerce issues only ATA carnets. Since some countries, however

are a party to one convention and not the other, the United States has acceded to both to assure that U.S. exporters have the broadest range of facilities available to them.

What the letters mean

The letter designations for the different types of carnet stand for

ATA—the combined French and English words *Admission Temporaire/Temporary Admission*.

ECS—the combined French and English words *Echantillons Commerciaux/Commercial Samples*.

TIR—*Transport International Routier International road transport*.

The customs convention on professional equipment permits Americans to take cinematographic equipment, equipment for the press, for radio and television broadcasting and other tools of trade (such as medical instruments and measuring and calibrating equipment) into member countries for periods up to 6 months without payment of import duties. The ATA carnet is used as a guarantee for customs duties to which such temporarily-entered equipment might be liable if not reexported as specified.

The TIR convention makes TIR carnets available to American exporters so that their shipments under the convention en route to an interior destination shall not be subjected to the payment or deposit of import or export duties and taxes at customs offices en route. As a general rule, such shipments would not be subject to Customs inspection until arrival at the final destination. The Equipment Interchange Association (EIA) has been designated by the U.S. Customs Service as the official U.S. TIR carnet issuing and guaranteeing association. Inquiries concerning the TIR carnet should be addressed to the EIA, at 1616 P Street, N.W., Washington, D.C. 20036.

The customs convention on containers allows temporary duty free entry for up to 3 months of American containers now widely used for shipments in international trade. This facility is applicable to reusable containers, either loaded or empty, having an internal volume of 1 cubic meter or more, such as lift-vans, movable tanks, or other similar structures. This convention relates only to the customs treatment of the container, not its contents, and does not employ the carnet facility.

Carnets for commercial samples and professional equipment can be used in countries which have signed the related conventions and designated local carnet-issuing and guaranteeing associations. These countries, which include most major U.S. trading partners except the Latin American states, are: Australia, Austria, Belgium/Luxembourg, Bulgaria (for professional equipment only), Canada, Czechoslovakia, Denmark, Finland, France (including Guadeloupe, Guyane, Martinique,

Reunion), Germany (Federal Republic of), Hungary, Iceland, Ireland, Israel, Italy, Ivory Coast, Japan, Netherlands, Norway, Poland, Portugal, Romania, Spain, Sweden, Switzerland, United Kingdom (including Gibraltar), and Yugoslavia.

The local carnet associations are members of the International Bureau of Chambers of Commerce carnet chain, and have two primary functions. To issue carnets to their residents, and to guarantee the payment of duties to local customs authorities should goods imported under cover of a foreign-issued carnet not be reexported.

The U.S. Council of the International Chamber of Commerce, 1212 Avenue of the Americas, New York, N.Y. 10036, has been designated by the U.S. Bureau of Customs as the United States' issuing and guaranteeing organization.

Where To Apply

American firms or their designated representatives should apply for carnets to the U.S. Council at its New York address. U.S. Department of Commerce District Offices presently have descriptive literature and application forms available for distribution to those interested in securing a carnet.

A fee is charged for the carnet to cover services rendered by the U.S. Council. This fee is based on the value of the goods covered and runs from a minimum of \$60 to a maximum of \$150.

Completed applications, with fee, should be accompanied by a bank letter of credit (or a cash deposit, bank guarantee or a similar security) in favor of the U.S. Council, to remain in force for 30 months from the date of issuance of the carnet. The amount of the guarantee will be 40% of the value of the goods covered by the carnet. This is required in order that the Council may have recourse should duties not be paid on goods exported under a carnet and sold overseas. The security is released when the used carnet is returned to the Council indicating that all foreign customs requirements have been met. The Council is willing to consider flexible guaranteeing arrangements under which a single instrument would cover more than one carnet.

In all cases, it is up to the U.S. Council to determine whether a carnet will be issued for a particular item, since the types of goods which are allowed carnet-covered, temporary entry under national laws and regulations differ from country to country. Also it should be remembered that carnets in no way substitute for the usual U.S. export control procedures required under the Export Administration Act of 1969.

The carnet system has worked successfully in Europe for a number of years and more than 100,000 are issued annually worldwide. U.S. businessmen have found the carnet particularly useful when displaying their goods at overseas exhibits and sending their technicians with tools of trade to repair equipment installed abroad.

ENFORCEMENT OF FOREIGN ARBITRAL AWARDS UNDER THE U.N. CONVENTION

By OVIDIO M. GIBERGA
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Changes in the Federal Arbitration Act adapt it to the needs of international traders, many of whom prefer to settle disputes by arbitration. Their practice is to insert an arbitration clause in trade contracts, using one of the standard clauses of the American Arbitration Association or similar organizations.

Unless settled voluntarily, trade differences may have to be decided ultimately through court action. As a rule this means an expensive and time-consuming operation, particularly if litigation takes place in a foreign country. Inconveniences and hazards multiply. Language barriers, distance between the litigants, need to depend on foreign legal counsel, and relative unfamiliarity with foreign laws, are some of the factors which contribute to the delay, expense, and uncertainty usually incident to foreign lawsuits.

To avoid these inconveniences businessmen all over

the world tend to resort whenever possible to voluntary commercial arbitration for the settlement of their disputes. Arbitration affords, in the usual case, a less expensive, private, and faster procedure. It assures the parties of a hearing and a decision by experts in the trade involved.

These experts, who are appointed by the parties or by an organization designated by the parties, impartially hear and examine the case and weigh and appraise the evidence. They limit their inquiry to the matters and issues agreed to in the arbitration agreement, and decide the dispute in accordance with universal mercantile standards and established business practices. This system is designed to provide the parties with a prompt, inexpensive, private and impartial settlement of their dispute under principles known and understood by the litigants.

Explanation of 1970 Amendments to the U.S. Arbitration Act

On July 31, 1970, the President signed legislation (Public Law 91-388) amending the basic Federal arbitration law, the United States Arbitration Act (9 U.S.C. 1 et seq.), so as to increase the enforceability of certain arbitration agreements and awards. The amendments are in the form of a new chapter (Chapter 2) to the Arbitration Act and pertain exclusively to agreements and awards made pursuant to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. The Convention, which the U.S. has acceded to and which entered into force for the U.S. on February 1, 1971, is an agreement between member countries (now numbering 45) that they will recognize and enforce commercial arbitration agreements and awards as required by the Convention.

While the United States Arbitration Act prior to amendment by Public Law 91-388 was only applicable to narrowly defined types of arbitration agreements and awards, the Convention applies to virtually all commercial arbitrations involving nationals or companies of member countries. Consequently, the new chapter has considerably broadened the Act's coverage. The most important changes embodied in Chapter 2 are:

1. Disputes arising out of an arbitration agreement subject to the Convention will now fall within the original jurisdiction of the Federal District Courts regardless of the amount in controversy. Such disputes brought before a State court may be removed to the appropriate Federal District Court.
2. The Federal District Courts are authorized to direct that arbitration be held at the place provided for in the arbitration agreement even if that place is outside the United States. The Court may also appoint arbitrators in accordance with the provisions of the agreement.
3. Arbitral awards made pursuant to the Convention may be presented to a Federal District Court for confirmation for up to three years following the date they were rendered.

See Annex A, page 21, for the text of the United States Arbitration Act.

However, obtaining recognition and enforcement in countries foreign to that of issuance of the arbitration award has often been a matter of uncertainty. This difficulty is what the 1958 U.N. Convention on Recognition and Enforcement of Foreign Arbitral Awards is designed to overcome. In the absence of agreement by treaty, domestic legislation usually does not provide specifically for recognition and enforcement of foreign arbitral awards. The winning party, to enforce a foreign award, had to initiate a judicial proceeding in such countries.

The convention sets up uniform provisions under which the contracting states shall recognize and enforce under their rules of procedure, in their respective jurisdictions, arbitral awards that have been issued in other member countries.

The convention also specifies the grounds on which recognition and enforcement may be refused. The term arbitral awards refers to awards made by arbitrators deciding differences between legally competent parties, and includes awards made by arbitrators appointed for individual cases and those made by permanent arbitral bodies to which the parties have submitted, such as the arbitral tribunal of a chamber of commerce.

Under the convention each contracting state has agreed to recognize agreements in writing whereby the parties undertake to submit to arbitration differences that have arisen or which may arise between them in respect of a defined legal relationship, whether contractual or not, concerning a subject matter capable of settlement by arbitration. The term "in writing" includes an arbitral clause in a contract or an arbitration agreement, signed by the parties or contained in an exchange of letters or telegrams.

Accordingly, a court of a contracting state will refrain from taking jurisdiction of a matter which the parties have agreed to submit to arbitration. As a rule under the convention each contracting state shall recognize as binding and enforce the above mentioned arbitral awards in its jurisdiction, once the petitioner has complied with several formal requirements. However, recognition and enforcement are not automatically extended to all agreements and foreign arbitral awards. There are circumstances under which member states may deny recognition and enforcement of agreements or awards.

Under the convention each contracting state may limit its application of the convention. Some countries enforce awards only in matters considered commercial under their laws; these countries are separately identified in the accompanying list of ratifying states.

Other grounds on which recognition and enforcement may be refused are: incapacity of the parties or invalidity of the arbitration agreement under the law governing them, the party against whom the award is invoked was not given proper notice of the appointment of the arbitrator or of the arbitration proceedings or was unable to present his case; the award falls outside the terms of the agreement to submit to arbitration, or the award has not yet become binding on the parties or has been set aside. The contracting states may also deny recognition and enforcement when the subject matter of

the award is not arbitrable under its laws, or recognition or enforcement of the award would be against public policy.

In relation to other international treaties and conventions entered by contracting states, the 1958 United Nations Convention provides that the Geneva Protocol on Arbitration Clauses of 1923, and the Geneva Convention for the Execution of Foreign Arbitral Awards of 1927, shall cease to have effect between the member states. The United States does not belong to the above mentioned Geneva Conventions but has Friendship, Commerce, and Navigation Treaties, that include arbitration provisions, with the following countries: Japan, Korea, Republic of China, Iran, Israel, Haiti, Colombia, Ireland, Greece, Portugal, Federal Republic of Germany, Denmark and the Netherlands.

The convention was not intended to, and consequently does not provide a text of substantive and procedure rules of arbitration to be applied by the contracting states when deciding domestic arbitration cases. In fact, each state decides arbitration under its own laws. Rather, the convention's aim is to provide rules to govern the recognition and enforcement of foreign arbitral awards and agreements.

The convention applies only to voluntary arbitration, as distinguished from compulsory arbitration. Under voluntary arbitration the parties, of their own free will agree to submit their controversies over a commercial transaction, to the judgment of an impartial third party or arbitrator. In this type of arbitration the parties are free to a great degree to stipulate matters and issues to be settled, procedures and rules to be followed, and the choice of law to be applied.

The 1958 Convention enjoys a number of advantages over its predecessors. A principal benefit is the reduced and simplified requirements for recognition and enforcement of awards. The convention clearly stipulates the affirmative actions that must be taken by a party seeking enforcement of a foreign arbitral award. The required actions are reduced to a minimum. In effect, by requiring only the establishment of a *prima facie* case, the burden of establishing a satisfactory defense is placed on the party against whom recognition and enforcement is invoked. Also, the convention provides for improved freedom of the parties in choosing the arbitral authority as well as the arbitration procedure.

The United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards was ratified by 45 countries as of September 1974.

The following countries ratified without conditions: Austria, Cambodia, Ceylon, Dahomey, Egypt, Finland, Ghana, Greece, Israel, Italy, Mexico, Niger, Sweden, Syrian Arab Republic, United Republic of Tanzania, Thailand, and Yugoslavia.

The following ratified with a declaration of reciprocity: Australia, Botswana, Byelorussian S.S.R., Bulgaria, Central African Republic, Cuba, Czechoslovakia, Ecuador, Denmark, Federal Republic of Germany, German Democratic Republic, France, Hungary, India, Japan, Madagascar, Morocco, Netherlands, Nigeria, Norway, Philippines, Poland, Romania, Switzerland, Trin-

dad and Tobago, Tunisia, Ukrainian S.S.R., Union of Soviet Socialist Republics, United States of America, and Upper Volta.

The following ratified it with a declaration limiting participation to arbitration of disputes arising out of legal relationships on commercial matters. Botswana, Central African Republic, Ecuador, France, Hungary, India, Republic of Korea, Madagascar, Nigeria, Philippines, Poland, Romania, Trinidad and Tobago, Tunisia, and the United States of America.

Norway ratified with the following reservation: "We will not apply the convention to differences where the subject matter of the proceedings is immovable property situated in Norway, or a right in or to such property."

The Office of International Finance and Investment has prepared summaries of the commercial arbitration laws of 21 countries. These summaries cover the highlights and indicate the salient features of the arbitration picture in each country. They are believed to reflect the situation at the time of writing. However, it should be borne in mind that commercial laws are constantly changing and that countries from time to time enact new laws to conform to local needs.

These summaries do not include all 45 contracting states, not the states which have not yet joined the U.N. Convention, such as the United Kingdom, Canada, Belgium, and others. However, some of the excluded countries have highly developed arbitration laws and excellent institutional facilities for arbitration.

Austria—Arbitration is governed by the Code of Civil Procedure, 1895, as amended. Arbitration agreements must be in writing. With few exceptions arbitration may be agreed to for settlement of any type of dispute. Parties usually appoint one arbitrator each and they appoint a third. If parties cannot agree, arbitrators may be court-appointed.

Award must be in writing and delivered to parties. Arbitrators decide within the framework of the agreement in accordance with their own free judgment. Awards are enforceable by the courts. They are usually subject to court challenge only if the arbitration agreement expressly provides for appeal. The award may be set aside on various grounds stipulated in the Code. Arbitral awards are not usually made public.

Arbitral tribunals for deciding commercial disputes are operated by the Chambers of Commerce in the nine Landers of the Austrian Federation, the Produce Exchange, the Commercial Exchange and the Stock Exchange.

Ceylon—Arbitration is governed by the Code of Civil Procedure (Cap 86, Sections 676-698), the Arbitration Ordinance (Cap 83), Legislative enactments of Ceylon, and Ordinance for the Enforcement of Judgments, No. 41 of 1921, supporting the Arbitration Rules of the Ceylon Chamber of Commerce. Written agreements to arbitrate existing or future disputes are recognized as valid. Parties may appoint arbitrators and mutually agree on the procedural rules which would govern the arbitration proceedings. Arbitrator's fees and costs of procedure paid by losing party. Awards must be in writing and the parties notified. Voluntary arbitration awards are

final and binding on the parties and persons claiming under them. The arbitrators or any of the parties may apply to the competent court for filing and confirmation of the award. Losing party may apply to the court for the setting aside or annulment of the award.

Czechoslovakia—Arbitration proceedings in international commercial relations governed by Statute No. 98/1963. Other statutes and the Code of Civil Procedure regulate domestic arbitration matters. The arbitration agreement must be in writing, but not in any particular form, and may concern a dispute which already exists or refers to future disputes arising from the contractual relationship. If a valid agreement exists courts will not adjudicate matters submitted to arbitration. Awards must be in writing. They acquire the status of judgments when served on the other party and an order of execution may be obtained on application to the court.

The Court of Arbitration of the Czechoslovakian Chamber of Commerce decides all commercial arbitration controversies. This court works in cooperation with the Chamber of Commerce in Prague. Apart from this Court there is no other arbitral tribunal.

Ecuador—International commercial arbitration is governed by Decree 735 of Oct. 28, 1963, entitled "Commercial Arbitration Law." This law expressly recognizes the validity of agreements to submit existing or future commercial disputes to arbitration. Arbitrators are chosen and appointed by parties from rosters prepared by the Board of Directors of the Chamber of Commerce. If the parties fail to appoint arbitrators they may be nominated by the court which will be in charge of execution of the award. The award must be in writing and is enforceable from time of notification. Unless differently agreed, the parties pay their share of the arbitration procedure. No appeal may be filed against an arbitral award. However, explanations, elaboration, or correction of awards may be petitioned prior to the award becoming final (3 days).

Finland—Arbitration governed by Code of Arbitral Procedure, February 4, 1928. Execution of arbitral awards governed by Debtor's Act of 1895, as amended, Law No. 262 of Jan. 5, 1962 applies to enforcement of foreign arbitral awards.

Arbitration agreement must be in writing. Agreements concerning current disputes and future arbitration clauses recognized. Parties are free to stipulate agreement, procedure, governing law, arbitral court, and appointment of arbitrators. If a valid agreement to arbitrate exists, courts will not adjudicate issues submitted to arbitration.

Awards must be in writing, served on parties, and filed in court. Arbitrators are free to decide case based on justice and fairness with observance of public policy. Reasons for the award are usually stated. If enforcement of award is sought and it is upheld, execution is similar to that of a judgment. The losing party may be ordered to pay the costs of obtaining the order of execution. Foreign awards can be executed in Finland if they conform to the statutory requirements of Finland; the party opposing execution is entitled to an opportunity

to present views. Commercial disputes are arbitrated by the Arbitration Board of the Central Chamber of Commerce, Helsinki, in addition to ad hoc tribunals.

France—Arbitration procedure is governed by the Code of Civil Procedure, as amended by Decree of Dec 22, 1958, and by the Commercial Code. Both arbitral clauses and submissions are recognized, and have the effect of depriving the courts of jurisdiction and requiring the parties to proceed to arbitration. Arbitration is excluded from legal situations reserved to the courts, and in the field of commercial law questions of bankruptcy, questions concerning the ownership and validity of patents and trademarks, among others, are not subject to arbitration. The law does not prescribe any set form for arbitral clauses or submissions but it stipulates that they must be in writing.

No specific number of arbitrators is required by law, and parties usually leave their choice to the institution conducting the arbitration. Arbitrators are entitled to a fee usually payable before the proceeding begins. Arbitrators must apply rule of law, unless agreement appoints them as "amiable compositeurs", in which case they may consider only public policy and equity.

Award must be in writing and state the reasons on which based. It must be filed in court for confirmation for enforcement purposes. The court reviews the decision to ascertain that the arbitrator has decided within the limits set forth by the contract of arbitration. Once enforcement is ordered, the award operates in every respect as a judgment.

International commercial matters may be arbitrated through the Court of Arbitration of the International Chamber of Commerce, 38 Cours Albert Ier, Paris. There are also several regional arbitration institutions and commodity exchanges which provide arbitral facilities for their members, e.g., coffee, cocoa, leather, cotton, shipping.

Germany, Federal Republic—Arbitration is governed by the Code of Civil Procedure. Agreements are usually expressed in writing but verbal agreements are sometimes recognized and in some branches of commerce it is the custom and practice to refer all disputes to arbitration unless otherwise stipulated. Arbitral clauses and submissions have the same binding force and legal consequences. The arbitration agreement has the effect of excluding jurisdiction of the law courts and imposing the obligation to participate in arbitration proceedings. Arbitrators have a large degree of independence and are not bound by rules of procedure nor ordinarily by rules of law. Awards must be filed with the competent court together with evidence of service on the other party to be enforceable. Courts will not inquire into the merits of contested awards but a judicial review is available and awards may be set aside for cause.

Enforcement of a foreign award takes place in a manner identical to awards made in Germany unless grounds exist which make it incapable of being enforced in Germany, e.g., contrary to public policy, lack of proper hearing, etc. Awards are in writing and notified to the parties but are not usually published. Arbitration is widely practiced and there are arbitration tribunals in

all Chambers of Commerce which settle all kinds of commercial disputes. Disputes in international trade are also decided by tribunals in the various trades (cotton, wool, coffee, etc.) upon submission of foreign party to German arbitration.

Greece—Code of Civil Procedure sets basic rules governing arbitration. Other laws have been enacted creating permanent arbitration institutions, such as the various chambers of commerce. These laws specify rules of procedure, the types of disputes which may be handled, method of appointing arbitrators, etc. An arbitration agreement is not valid unless arbitrators have been appointed and are named in the agreement. In arbitrations conducted by chambers of commerce or similar institutions, they appoint the arbitrators. An agreement to refer a future dispute to arbitration is not binding. In disputes subject to commercial law, the claimant may insist on arbitration. However, in practice most commercial litigation takes place in court and arbitration, both voluntary and compulsory, is generally avoided.

Hungary—Although Hungarian law recognizes agreements between state enterprises and foreign companies or persons which provide for ad hoc arbitration, in practice such proceedings are usually conducted under the rules of the Arbitration Court of the Hungarian Chamber of Commerce, Budapest. The rules permit each party to choose one arbitrator (who may be a foreigner) and a third arbitrator is selected from a list of legal and economic experts maintained by the Chamber. Parties may have a representative at the hearings and he may be a foreigner. The award must be in writing, no special form required. Losing party pays the costs, based on amount in dispute. Decisions of the Arbitration Court enforceable by the Central District Court.

India—The Arbitration Act (Law X of 1940) empowers trade organizations to adopt arbitration rules, set up tribunals, conduct proceedings and make awards. It applies equally to arbitral clauses and submissions of existing controversies. Agreements must be in writing. Although court action may be stayed where the parties have agreed to arbitrate, wide discretion is given to the courts in this regard. The court may appoint arbitrators where the parties have been unable or unwilling to do so. The award must be in writing. The arbitrators or any of the parties may apply to the competent court for filing and confirmation of the award. The losing party may apply to the court for the setting aside or annulment of the award.

Several trade organizations throughout India provide facilities for arbitrating commercial disputes. Some of these organizations have concluded agreements with the American Arbitration Association, e.g., the Federation of Indian Chambers of Commerce and Industry in India, the Madras Chamber of Commerce and the Bengal Chamber of Commerce, in Calcutta.

Israel—Arbitration is governed by Arbitration Ordinance which is patterned on English law. Agreement must be in writing. Both submissions of existing disputes

and arbitral clauses in contracts are binding. Parties are free to stipulate terms of their agreements, including appointment of arbitrators and the arbitral body. Awards enforced in same manner as court judgments or orders.

Japan Commercial arbitration mainly governed by the Code of Civil Procedure. Generally any dispute actionable at law may be submitted to arbitration. Written or oral agreements recognized, no substantial distinction between agreements covering existing disputes and those covering future disputes. A valid agreement has the effect of excluding court consideration of matters submitted to arbitration. Parties are free to stipulate terms of their agreement, including appointment of arbitrators, procedure and arbitral body. Right to a hearing and presentation of case preserved by law. Arbitrators are not bound by procedural or substantive rules of law, but must observe public policy. No distinction between *de facto* (amiable compositeurs) or *de jure* arbitrators.

Awards must be in writing, be within the terms of the arbitration agreement and state the reasons underlying the decision. Failure to observe these and other requirements of the Code may grounds for cancelling the award. A copy of the award must be served on the parties and original deposited in court. Award has same effect as judgment. No charge for depositing award. Enforcement requires issuance by court of execution judgment. Normal costs are charged. Foreign awards enforced by order of the court in same manner as domestic.

Most important arbitration institutes are: Japan Commercial Arbitration Association, Tokyo Chamber of Commerce and Industry Bldg. 13, 3-chome, Marunouchi, Chiyoda-ku, Tokyo; Nippon Shipping Exchange, Osaka Cotton Arbitration Board, Rubber Trade Association of Japan.

The Japan Commercial Arbitration Association was formed in 1950 under the auspices of the Japan Chamber of Commerce and Industry, a national federation of more than 400 local chambers of trade groups. It has a working agreement with the American Arbitration Association and with arbitral institutions of many other countries. The Rules of the Association provide that arbitrators are to be appointed either from its panel or directly by the parties. The Rules provide either for an oral hearing, at which parties may be represented by counsel, or for submission of written statements and evidence without hearing. Awards are rendered in writing within 30 days after the close of the hearing or submission of written proofs. Fees are based on the amount of the claim, on a sliding scale. When the amount is \$10,000 or less, the fee is 1½% for each party.

Netherlands Arbitration is governed by the Code of Civil Procedure. Practically any dispute which can be taken to court can be submitted to arbitration. The agreement may relate to an existing dispute or provide for arbitration of future disputes. Parties may freely stipulate as to procedure, applicable rules, arbitral body and the arbitrators. Usually each party selects an arbitrator and these appoint a third. Under certain

conditions the court, or the arbitral body, may appoint arbitrators. An arbitral agreement precludes access to the courts. If authorized, arbitrators decide according to equity and fairness (*ex aequo et bono*), otherwise must apply the law. Arbitrators must make an award in 6 months in writing and state the reasons on which based. The award must be filed within 8 days with the court of the district. Leave to enforce is almost always granted. Awards are not appealable unless the parties provide otherwise in their agreement.

Arbitration is frequently resorted to and many sectors of trade have their own institutes of arbitration. In international contracts arbitration by the International Chamber of Commerce is often specified. The Netherlands Arbitration Institute has a working agreement with the American Arbitration Association.

Norway Arbitration is governed by Civil Procedure Act, Law No. 6 of 1915. The arbitration agreement must be in writing and may relate to an existing dispute, or provide for future arbitration. Parties freely stipulate terms of the agreement and choose arbitral body, rules of procedure, and appoint arbitrators. Usually each party selects one arbitrator and they select a third. Under certain conditions a court or arbitral body may appoint arbitrators. Procedure must observe due process including hearing and presentation of case. If authorized in agreement arbitrators decide according to equity and fairness, otherwise must apply the law. The award must be in writing and state reasons on which based unless parties waive this requirement. A copy of the award is filed in court. Enforcement (execution) of the award is by court order. Awards are not appealable. However, should grounds for invalidity exist, recourse may be made to the courts to annul or set aside the award.

Commercial arbitration cases are heard by several permanent arbitration tribunals at Oslo, Bergen, and Trondheim. Trade associations have special tribunals to resolve disputes involving their members.

Philippines Arbitration is governed by Republic Act No. 876 of 1953. Arbitration agreements must be in writing and may relate to an existing dispute, or provide for arbitration of future disputes. Courts will order parties to proceed with arbitration and will stay legal action until completion of the arbitration proceedings. Parties are free to choose the form of the agreement, arbitral body, rules of procedure, applicable law and the arbitrators. The law gives arbitrators power to compel attendance as witnesses, and sets then fee at 50 pesos a day unless otherwise provided. The award must be in writing, served on parties, and filed with court for confirmation. Appeal may be filed against the award, which may be vacated or modified on certain grounds stated in the law. Costs and fees paid by losing party. Arbitration cases are decided by *ad hoc* tribunals and chambers of commerce.

Poland Arbitration is governed by the Code of Civil Procedure (Official Gazette Polish People's Republic, 1950, No. 43, item 394). Arbitration rules are mandatory. Arbitration agreements must be in writing and may relate to a current dispute or provide for arbitration of

future disputes. A court will not adjudicate issues submitted to arbitration if its jurisdiction is challenged before the hearing begins. Arbitrators' fees may be fixed in the agreement. Awards must be in writing, state reasons for the decision, and delivered to the parties. An award is unenforceable without an enforcement order, which will be granted on request of the successful party. Awards are not appealable and become binding on issuance. However, parties may ask that an award be set aside because he had no opportunity to state his case, the award is "contrary to public policy or the principles of the People's State," or other grounds recognized by the Code.

The two regular arbitration tribunals are the Court of Arbitration of the Polish Chamber of Foreign Trade in Warsaw and the Court of Arbitration of the Gdynia Cotton Association.

Romania—According to its rules, the Arbitration Commission of the Romanian People's Republic is competent to settle disputes whenever parties have chosen it. The rules of the Commission require the arbitration agreement to be in writing; both current disputes or future disputes may be covered. Courts normally will not adjudicate matters submitted to arbitration. Arbitrators are appointed by parties from the Arbitration Commission's roster; each party selects one, and these, or the Commission, selects the third.

The procedures of the Chamber of Commerce provide for presentation of case and hearing. Awards must be in writing, stating reasons for decision. They are not published. According to the rules, awards of the Arbitration Commission are final and enforceable. A fee of 1% of the value of the claim is deposited with the Chamber of Commerce when the claim is presented and the arbitrators are remunerated by the Chamber out of these funds. The Romanian state enterprise for foreign trade normally stipulates in its contracts that "disputes shall be settled by arbitration of the chamber of commerce of the country against whom the claim has been raised."

Switzerland—Arbitration governed by the Laws of Procedure of the 25 Cantons. These statutes are favorable to arbitration. In general the same legal principles govern submissions of existing disputes and arbitral clauses. Practically any dispute of a commercial nature can be brought to arbitration. A high degree of party autonomy is permitted and they may select the arbitrators, and designate applicable procedures. However, parties must have an opportunity to be heard, equal treatment must be afforded and due process observed. The award must be in writing and state reasons for the decision unless otherwise agreed by the parties. The arbitrators must apply the rule of law unless authorized to decide in accordance with equity and justice.

Some cantons require the award to be filed for enforcement with a court which then issues enforcement order. Whether an appeal may be filed against the award depends on canton law which varies greatly in this respect. However, annulment is possible under certain conditions. There is no Swiss national arbitration institu-

tion, but many trade associations and local chambers of commerce have permanent arbitration tribunals.

Syria—With few exceptions arbitration may be agreed to for settlement of any kind of dispute. Arbitrators are appointed by agreement, if the parties cannot agree the arbitrators are court appointed. Awards may be appealed except for jurisdictional reasons. Enforcement of awards is by means of court judgment.

Thailand—Arbitration in general is governed by the Code of Civil Procedure. Commercial arbitration is regulated by the Commercial Arbitration Rules of July 1, 1968 issued by the Thai Commercial Arbitration Committee. The Rules were formulated by representatives of various chambers of commerce in Bangkok, the Department of Foreign Trade of the Ministry of Economic Affairs, and the Board of Export Promotion.

These chambers and agencies of Government appoint the 15 members of the Committee, whose chairman is the President of the Board of Trade. Arbitration agreements must be in writing, and can apply only to an existing dispute. Parties submit their petition for arbitration to the Registrar of the Office of the Arbitration Tribunal. The Registrar maintains a panel from which the parties may choose arbitrators. When the parties have submitted their dispute to arbitration court action is precluded. The award must be in writing and notified to the parties. No need to register for enforcement. Costs are payable as ordered by the Arbitration Tribunal. Awards issued by the Tribunal are final and unappealable.

USSR—Foreign Trade Arbitration is governed by Decree of the Central Executive Committee and the Council of People's Commissars of USSR of June 17, 1932 (Collection of Laws 1932, No. 48), creating an Arbitral Tribunal operating under the Foreign Trade Arbitration Commission, a non-State public body at the USSR Chamber of Commerce. Any dispute arising from a foreign trade contract may be submitted to the Foreign Trade Arbitration Commission.

The arbitration agreement must be in writing and relate to an already existing dispute (submission). Certain minimal formalities are required concerning notarization of signatures, identification of parties, issues and claim. The courts will not adjudicate issues submitted to arbitration. Each party may appoint an arbitrator, or agree on appointing one from the Commission's roster. Parties may leave the appointment of arbitrators to discretion of the President of the Commission. The arbitration tribunal is not bound by formal rules of procedure, but must, nevertheless, observe due process including summoning parties, presentation of case, and hearing. The arbitrators decide on the basis of the agreement, considering applicable law and custom. The award must be in writing, stating reasons for the decision. All papers filed with People's District Court. Copies are supplied to parties. Enforcement issued by Court on petition. Awards issued by the Foreign Trade Arbitration Commission are final and unappealable.

TITLE 9 U.S. CODE

ARBITRATION

CHAPTER 1

GENERAL PROVISIONS

**Section 1. "Maritime transactions"
and "commerce" defined;
exceptions to operation of title**

"Maritime transactions", as herein defined, means charter parties, bills of lading of water carriers, agreements relating to wharves, supplies furnished vessels or repairs to vessels, collisions, or any other matters in foreign commerce which, if the subject of controversy, would be embraced within admiralty jurisdiction, "commerce", as herein defined, means commerce among the several States or with foreign nations, or in any Territory of the United States or in the District of Columbia, or between any such Territory and another, or between any such Territory and any State or foreign nation, or between the District of Columbia and any State or Territory or foreign nation, but nothing herein contained shall apply to contracts of employment of seamen, railroad employees, or any other class of workmen engaged in foreign or interstate commerce.

**Section 2. Validity, irrevocability,
and enforcement of agreements
to arbitrate**

A written provision in any maritime transaction or a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof, or an agreement in writing to submit to arbitration an existing controversy arising out of such a contract, transaction, or refusal, shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.

**Section 3. Stay of proceedings
where issue therein referable to
arbitration**

If any suit or proceeding be brought in any of the courts of the United States upon any issue referable to arbitration under an agreement in writing for such arbitration, the court in which such suit is pending, upon being satisfied that the issue involved in such suit or proceeding is referable to arbitration under such an agreement, shall on application of one of the parties stay the trial of the action until such arbitration has been had in accordance with the terms of the agreement, providing the applicant for the stay is not in default in proceeding with such arbitration.

**Section 4. Failure to arbitrate
under agreement; petition to
United States court having
jurisdiction for order to compel
arbitration; notice and service
thereof; hearing and determination**

A party aggrieved by the alleged failure, neglect, or refusal of another to arbitrate under a written agreement for arbitration may petition any United States district court which, save for such agreement, would have jurisdiction under Title 28, in a civil action or in admiralty of the subject matter of a suit arising out of the controversy between the parties, for an order directing that such arbitration proceed in the manner provided for in such agreement. Five days' notice in writing of such application shall be served upon the party in default. Service thereof shall be made in the manner provided by the Federal Rules of Civil Procedure. The court shall hear the parties, and upon being satisfied that the making of the agreement for arbitration or the failure to comply therewith is not in issue, the court shall make an order directing the parties to proceed to arbitration in accordance with the terms of the agreement. The hearing and proceedings, under such agreement, shall be within the district in which the petition for an order directing such arbitration is filed. If the making of the arbitration agreement or the failure, neglect, or refusal to perform the same be in issue, the court shall proceed summarily to the trial thereof. If no jury trial be demanded by the party alleged to be in default, or if the matter in dispute is within admiralty jurisdiction, the court shall hear and determine such issue. Where such an issue is raised, the party alleged to be in default, may, except in cases of admiralty, on or before the return day of the notice of application, demand a jury trial of such issue, and upon such demand the court shall make an order referring the issue or issues to a jury in the manner provided by the Federal Rules of Civil Procedure, or may specially call a jury for that purpose. If the jury find that no agreement in writing for arbitration was made or that there is no default in proceeding thereunder, the proceeding shall be dismissed. If the jury find that an agreement for arbitration was made in writing and that there is a default in proceeding thereunder, the court shall make an order summarily directing the parties to proceed with the arbitration in accordance with the terms thereof.

**Section 5. Appointment of
arbitrators or umpire**

If in the agreement provision be made for a method of naming or appointing an arbitrator or arbitrators or an umpire, such method shall be followed; but if no method be provided therein, or if a method be provided and any party thereto shall fail to avail himself of such method or if for any other reason there shall be a lapse in the naming of an arbitrator or arbitrators or umpire, or in filling a vacancy, then upon the application of either party to the controversy the court shall designate

and appoint an arbitrator or arbitrators or umpire, as the case may require, who shall act under the said agreement with the same force and effect as if he or they had been specifically named therein, and unless otherwise provided in the agreement the arbitration shall be by a single arbitrator.

Section 6. Application heard as motion

Any application to the court hereunder shall be made and heard in the manner provided by law for the making and hearing of motions, except as otherwise herein expressly provided.

Section 7. Witnesses before arbitrators; fees; compelling attendance

The arbitrators selected either as prescribed in this title or otherwise, or a majority of them, may summon in writing any person to attend before them or any of them as a witness and in a proper case to bring with him or them any book, record, document, or paper which may be deemed material as evidence in the case. The fees for such attendance shall be the same as the fees of witnesses before masters of the United States courts. Said summons shall issue in the name of the arbitrator or arbitrators, or a majority of them, and shall be signed by the arbitrators, or a majority of them, and shall be directed to the said person and shall be served in the same manner as subpoenas to appear and testify before the court; if any person or persons so summoned to testify shall refuse or neglect to obey said summons, upon petition the United States district court for the district in which such arbitrators, or a majority of them, are sitting may compel the attendance of such person or persons before said arbitrator or arbitrators, or punish said person or persons for contempt in the same manner provided by law for securing the attendance of witnesses or their punishment for neglect or refusal to attend in the courts of the United States.

Section 8. Proceedings begun by libel in admiralty and seizure of vessel or property

If the basis of jurisdiction be a cause of action otherwise justiciable in admiralty, then, notwithstanding anything herein to the contrary, the party claiming to be aggrieved may begin his proceeding hereunder by libel and seizure of the vessel or other property of the other party according to the usual course of admiralty proceedings, and the court shall then have jurisdiction to direct the parties to proceed with the arbitration and shall retain jurisdiction to enter its decree upon the award.

Section 9. Award of arbitrators; confirmation; jurisdiction; procedure

If the parties in their agreement have agreed that a judgment of the court shall be entered upon the award

made pursuant to the arbitration, and shall specify the court, then at any time within one year after the award is made any party to the arbitration may apply to the court so specified for an order confirming the award, and thereupon the court must grant such an order unless the award is vacated, modified, or corrected as prescribed in sections 10 and 11 of this title. If no court is specified in the agreement of the parties, then such application may be made to the United States court in and for the district within which such award was made. Notice of the application shall be served upon the adverse party, and thereupon the court shall have jurisdiction of such party as though he had appeared generally in the proceeding. If the adverse party is a resident of the district within which the award was made, such service shall be made upon the adverse party or his attorney as prescribed by law for service of notice of motion in an action in the same court. If the adverse party shall be a nonresident, then the notice of the application shall be served by the marshal of any district within which the adverse party may be found in like manner as other process of the court.

Section 10. Same; vacation; grounds; rehearing

In either of the following cases the United States court in and for the district wherein the award was made may make an order vacating the award upon the application of any party to the arbitration—

- (a) Where the award was procured by corruption, fraud, or undue means.
- (b) Where there was evident partiality or corruption in the arbitrators, or either of them.
- (c) Where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced.
- (d) Where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made.
- (e) Where an award is vacated and the time within which the agreement required the award to be made has not expired the court may, in its discretion, direct a rehearing by the arbitrators.

Section 11. Same; modification or correction; grounds; order

In either of the following cases the United States court in and for the district wherein the award was made may make an order modifying or correcting the award upon the application of any party to the arbitration—

- (a) Where there was an evident material miscalculation of figures or an evident material mistake in the description of any person, thing, or property referred to in the award.
- (b) Where the arbitrators have awarded upon a matter not submitted to them, unless it is a

matter not affecting the merits of the decision upon the matter submitted.

- (c) Where the award is imperfect in matter of form not affecting the merits of the controversy

The order may modify and correct the award, so as to effect the intent thereof and promote justice between the parties.

Section 12. Notice of motions to vacate or modify; service; stay of proceedings

Notice of a motion to vacate, modify, or correct an award must be served upon the adverse party or his attorney within three months after the award is filed or delivered. If the adverse party is a resident of the district within which the award was made, such service shall be made upon the adverse party or his attorney as prescribed by law for service of notice of motion in an action in the same court. If the adverse party shall be a nonresident then the notice of the application shall be served by the marshal of any district within which the adverse party may be found in like manner as other process of the court. For the purposes of the motion any judge who might make an order to stay the proceedings in an action brought in the same court may make an order, to be served with the notice of motion, staying the proceedings of the adverse party to enforce the award.

Section 13. Papers filed with order on motions; judgment; docketing; force and effect; enforcement

The party moving for an order confirming, modifying, or correcting an award shall, at the time such order is filed with the clerk for the entry of judgment thereon, also file the following papers with the clerk:

- (a) The agreement, the selection or appointment, if any, of an additional arbitrator or umpire; and each written extension of the time, if any, within which to make the award.
(b) The award.
(c) Each notice, affidavit, or other paper used upon an application to confirm, modify, or correct the award, and a copy of each order of the court upon such an application.

The judgment shall be docketed as if it was rendered in an action.

The judgment so entered shall have the same force and effect, in all respects, as, and be subject to all the provisions of law relating to, a judgment in an action; and it may be enforced as if it had been rendered in an action in the court in which it is entered.

Section 14. Contracts not affected

This title shall not apply to contracts made prior to January 1, 1926.

Chapter 1:

Enacted into positive law by Act July 30, 1947, c. 392, s. 1, 61 Stat. 669, as amended Sept. 3, 1954, c. 1263, s. 19, 68 Stat. 1233

Chapter 2

CONVENTION ON THE RECOGNITION AND ENFORCEMENT OF FOREIGN ARBITRAL AWARDS

Section 201. Enforcement of Convention

The Convention on the Recognition and Enforcement of Foreign Arbitral Awards of June 10, 1958, shall be enforced in United States courts in accordance with this chapter.

Section 202. Agreement or award falling under the Convention

An arbitration agreement or arbitral award arising out of a legal relationship, whether contractual or not, which is considered as commercial, including a transaction, contract, or agreement described in section 2 of this title, falls under the Convention. An agreement or award arising out of such a relationship which is entirely between citizens of the United States shall be deemed not to fall under the Convention unless that relationship involves property located abroad, envisages performance or enforcement abroad, or has some other reasonable relation with one or more foreign states. For the purpose of this section a corporation is a citizen of the United States if it is incorporated or has its principal place of business in the United States.

Section 203. Jurisdiction; amount in controversy

An action or proceeding falling under the Convention shall be deemed to arise under the laws and treaties of the United States. The district courts of the United States (including the courts enumerated in section 460 of title 28) shall have original jurisdiction over such an action or proceeding, regardless of the amount in controversy.

Section 204. Venue

An action or proceeding over which the district courts have jurisdiction pursuant to section 203 of this title may be brought in any such court in which save for the arbitration agreement an action or proceeding with respect to the controversy between the parties could be brought, or in such court for the district and division which embraces the place designated in the agreement as the place of arbitration if such place is within the United States.

**Section 205. Removal of cases
from State courts**

Where the subject matter of an action or proceeding pending in a State court relates to an arbitration agreement or award falling under the Convention, the defendant or the defendants may, at any time before the trial thereof, remove such action or proceeding to the district court of the United States for the district and division embracing the place where the action or proceeding is pending. The procedure for removal of causes otherwise provided by law shall apply, except that the ground for removal provided in this section need not appear on the face of the complaint but may be shown in the petition for removal. For the purposes of Chapter 1 of this title any action or proceeding removed under this section shall be deemed to have been brought in the district court to which it is removed.

**Section 206. Order to compel
arbitration; appointment of
arbitrators**

A court having jurisdiction under this chapter may direct that arbitration be held in accordance with the agreement at any place therein provided for, whether that place is within or without the United States. Such

court may also appoint arbitrators in accordance with the provisions of the agreement.

**Section 207. Award of arbitrators;
confirmation; jurisdiction;
proceeding**

Within three years after an arbitral award falling under the Convention is made, any party to the arbitration may apply to any court having jurisdiction under this chapter for an order confirming the award as against any other party to the arbitration. The court shall confirm the award unless it finds one of the grounds for refusal or deferral of recognition or enforcement of the award specified in the said Convention.

**Section 208. Chapter 1;
residual application**

Chapter 1 applies to actions and proceedings brought under this chapter to the extent that chapter is not in conflict with this chapter or the Convention as ratified by the United States.

Chapter 2:

Public Law 91-368, 91st Congress, July 31, 1970.

PROTECTION OF INDUSTRIAL PROPERTY RIGHTS ABROAD

By VINCENT TRAVAGLINI, Director
Office of International Finance and Investment

Exporters, investors, licensors and others doing business abroad have a vital stake in protecting their industrial property rights. In most countries these rights can be protected, but it is still necessary to acquire protection for each country individually throughout most of the world.

There is as yet no overall international patent and trademark "system." With relatively unimportant exceptions, no country recognizes internally the patents or trademarks issued by others. There is, however, general agreement among nations on basic rights of patent and trademark owners. These rights are embodied in the International Convention for the Protection of Industrial Property. The Convention applies to industrial property in its widest sense and covers patents for inventions, utility models, industrial designs, trademarks, trade names, indications of origin and the prevention of unfair competition.

Member countries total 80

The International Convention was signed in 1883 and the United States became a member in 1887. Eighty countries now are members of the Convention as last revised at Stockholm in 1967.

The Convention has demonstrated remarkable durability as evidenced both by its survival power and its attraction for the newer countries which have been coming into existence in the last 15 years. No fewer than 20 of these countries have joined since 1957. Present membership is divided about equally between developed and less-developed countries and includes five Soviet satellites, as well as the USSR.

Basic provisions of the International Convention are of two kinds—the rule of national treatment, and the establishment of certain principles and rights.

National treatment means that all the member countries have agreed to grant the same patent and trademark treatment to nationals of other member countries as they grant to their own nationals. This eliminates discrimination against foreigners. Since each country is free to determine the scope of its own industrial property laws, however, the degree of protection varies from country to country.

The national treatment principle does not call for reciprocal treatment. This may result in a situation in which nationals of a given country receive less favorable

treatment in other countries than is afforded foreign nationals in their own country, or vice versa.

Priority Right

The Convention's most important provision is that granting a "right of priority" to foreigners. This means that a U.S. patent owner who files an application in another member country has a 12-month priority over any other applicant filing for the same invention in any other country belonging to the International Convention. The priority for trademarks is 6 months. The 6- or 12-month priority period runs from the date of filing in the country of origin and not from the date the patent or trademark was granted.

The priority right is important and valuable, especially for patents. If the right did not exist, a U.S. applicant would have difficulty registering his patent in many countries of the world, since most countries' patent laws have novelty requirements which provide that earlier publication of the invention anywhere in the world is a bar to patentability.

The priority right also provides a means of overcoming the territorial limitations of the national patent system. In effect it makes it possible for a patentee to acquire exclusive rights in his invention not only in his own country but also in any Convention country.

Independence of Patents

Under the Convention, patents and trademarks duly registered in a member country are considered as independent of patents on the same invention, or trademarks, registered in other countries. This means that once a patent or trademark has been granted on the basis of the priority right, its subsequent revocation or expiration in the country of original filing does not affect its validity in other countries. This principle of independence enables an owner to request registrations in every member country and each patent or trademark will be governed by the laws of the country issuing it.

Another feature of the International Convention is the safeguard it provides against invalidation of a patent merely because the patented product was imported into the country of registration. Some countries had patent laws which penalized importation of patented objects by

forfeiting the patent. Countries may still, of course, hinder imports through tariff, quota, exchange, and other controls, consistent with their other international commitments, but the controls may not be aimed particularly at patented products.

Compulsory Working Provisions

Most foreign countries have compulsory working and compulsory licensing provisions in their patent laws. The International Convention recognizes the right of countries to take such measures but imposes limitations on their taking.

Compulsory working of patents refers to the requirement that a patent not commercially worked within the country that granted it shall be invalidated. The International Convention prevents member countries from canceling a patent for 4 years from the date of filing of the patent application or 3 years from the date of grant. Thereafter member countries are required to resort initially to compulsory licensing. No action for cancellation of a patent can be introduced before the expiration of 2 years from issuance of the first compulsory license and the granting of compulsory licenses has proven insufficient to prevent abuses.

There has been a gradual shift away from laws providing for revocation of patents. A corresponding trend may be noted toward compulsory licensing. Although provisions vary considerably, the compulsory licensing type of law is most highly developed in the United Kingdom and Canada. Similar legislation exists in India, Pakistan and other British Commonwealth countries. Also many countries, such as Japan, the Netherlands, Norway and Sweden, make provision for non-working but do not provide for revocation. In practice, the statutes seem to be rarely enforced.

There are also several Inter-American industrial property treaties to which the United States belongs. A Convention on Inventions, Patents, Designs and Industrial Models, and one on Trademarks, were signed at Buenos Aires in 1910. The patent convention adopts the principles of national treatment, right of priority, and independence of patents along the lines of the International Convention just discussed.

The Trademark Convention attempted to provide for automatic registration so that a trademark owner registering his mark in one country would secure simultaneous protection in other member countries. The plan, however, was defective for various reasons and never went into operation. The 1910 Trademark Convention was superseded by the Inter-American Convention of 1923 which abandoned automatic registration in favor of registration through two Inter-American Bureaus, one in Havana and one in Rio de Janeiro. The Havana Bureau functioned only briefly and is now defunct. However, both of these Conventions are now superseded by the 1929 General Inter-American Convention for Trademarks and Commercial Names, adhered to by the United States and nine other countries.

Bilateral Treaties

Two kinds of U.S. bilateral treaties are of interest to owners of foreign patent and trademark rights: the Treaties of Friendship, Commerce and Navigation, and Income Tax Treaties. The FCN treaties generally include a national treatment provision with respect to obtaining and protecting patents, trademarks, trade names, and other industrial property. Some of the treaties stipulate that infringements will be prohibited by law and that remedies by civil action will be provided. FCN treaties also contain useful guarantees against unreasonable or discriminatory treatment in business establishment and trade matters generally.

Income tax treaties are in effect with over 20 countries. All of these treaties contain an exemption from taxation for industrial and commercial profits if the U.S. enterprise has no permanent establishment in the other country. This basic exemption includes royalties from patents, trademarks, and copyrights. In addition the exemption may be extended to include unpatented know-how, as in the case of the treaty with Germany.

There are still other treaty arrangements in the industrial property field of interest to U.S. patent and trademark owners, even though the United States is not a party to them.

Madrid Arrangement

Unlike the present situation in the patent field it is possible to centralize protection of trademarks in an "international registration" obtainable under a treaty known as the Madrid Arrangement. About 23 countries now belong, although the United States is not included. Under this arrangement, the trademark owner must register this mark in the member country in which he is domiciled. On the basis of his registration, the International Bureau of the World Intellectual Property Organization (WIPO) in Geneva, Switzerland, issues a so-called international registration. This is deposited by the Bureau with the trademark offices in the member countries, which examine the local deposit in accordance with their own laws.

A U.S. trademark owner can take advantage of this if he has a bona fide industrial or commercial establishment in a member country. Therefore, a branch of a U.S. company established in a member country is sufficient, and a registration in that country in the name of the American company specifying that it has a branch in that country will suffice as the basis for international registration.

An American-owned subsidiary domiciled in a Madrid Arrangement country may also seek an International Registration. This is one benefit of placing trademarks in the name of a foreign subsidiary, although it is well to remember that there are other sound reasons for not doing so, including the loss of control which this entails.

The basic advantage of international registration is that it saves money. The single fee for an international

registration is 400 Swiss francs—about \$130—considerably less than the total of the fees due in each country for separate registrations. The period of protection for an internationally registered trademark is the same for all contracting countries—20 years, renewable for further periods of 20 years each. An applicant can pay a reduced fee (240 Swiss Francs) for an initial registration of 10 years. If he decides to continue the mark for the further 10-year period, an additional fee of 330 Swiss Francs is required. The protection resulting from international registration cannot be claimed for a trademark which no longer enjoys protection in its country of origin.

Companies may have a search made at the International Bureau at Geneva to see if their particular marks have been the subject of international registration. The Bureau maintains excellent search facilities with the most painstaking facilities for identifying marks by all the conventional means, not excluding such factors as color, sound, and arrangement of consonants and vowels. On the other hand, a search by the Bureau is no substitute for individual country searches, since all trademarks do not receive international registration.

In June 1973, the U.S. participated in a negotiating conference which adopted a new Trademark Registration Treaty (TRT). The TRT is designed to make it simpler and less expensive to obtain trademark protection in foreign markets. The TRT provides that for a single fee a trademark application can be filed with the World Intellectual Property Organization in Geneva. However, unlike filings under the Madrid Agreement, the applicant will not need a prior home registration. The filing of a TRT application will have the effect of a filing in each country designated thereon by the applicant. The mark, after filing, will then be published and circulated by WIPO to member countries whereupon each country designated by the applicant has 15 months within which to refuse registration under its national law. If no timely refusal is indicated by a designated member country, the mark is deemed registered there. No member country will be able to refuse a mark on grounds of non-use; nor cancel it on such grounds for at least 3 years after its registration. The TRT will come into effect when five countries have ratified it.

Other Treaty Arrangements

Other treaty arrangements for registration of patents and trademarks also are coming into existence gradually.

A Patent Cooperation Treaty (PCT), adopted in June 1970, by the United States and most other developed countries, would simplify international filing procedures by allowing a patent applicant to file one application at a central source. Such a filing would have the effect of a filing in every member country where he desires protection. The Treaty also calls for centralized patent search and examination procedures and allows a patent applicant 20 months, instead of the more typical 12-month period, in which to complete his application documents. The PCT will enter into force when ratified

by eight countries, four of which must have major patent activity. However, the United States cannot deposit its instrument of ratification until implementing legislation is enacted.

In Western Europe, a proposed "European Patent Convention" was adopted in 1973. It would establish a regional patent system. However, under the Convention's procedures, anyone, irrespective of nationality, will be able to file a single international application at the European Patent Office for a so-called "European Patent." The application must designate those European countries in which the European Patent is sought. Upon completion of the application's examination, the European Patent will be granted, and exist, in effect, as a national patent in the designated countries. International applications filed under the Treaty may be subject to proceedings before the European Patent Office which will also be responsible for an international search and the preliminary examination. The Treaty is not yet in effect.

The European Common Market countries are also due to negotiate a corollary European Convention to eventually replace national patent laws and create a unified patent law for the EEC members. Under its provisions an EEC Patent will be issued to apply in every member country.

Exports of the Common Market countries have also drafted an EEC Trademark Convention. Certain questions of principle have not yet been decided, including whether U.S. laws will be eligible for full, or at least partial, participation in the Common Market patent and trademark system.

The Benelux countries have already adopted a Trademark Convention with a unified trademark law for Belgium, the Netherlands, and Luxembourg. It creates one law for all three countries, under which a Benelux trademark is issued. National trademark laws are supplanted.

Also in Europe, a uniform patent system for the Scandinavian countries is in the making. Norway, Sweden, Denmark and Finland have established identical laws. Eventually the system will provide that a patent issued in any of the four countries will be valid in the others.

In Africa an accord for creation of an African and Malagasy Industrial Property Office was signed in September 1962 by 12 member States of the African and Malagasy Union. The accord establishes a common system for the obtaining and maintenance of patent and trademark rights with a single deposit and centralized administration. Applicants domiciled outside member States make their deposits directly with the Industrial Property Office. Any deposit so made has the effect of a national deposit in each member State. Operations of the Office officially started January 1, 1964.

Within the British Commonwealth, bilateral arrangements are in force between certain countries—Australia, Canada, Ceylon, India, Pakistan, New Zealand, and the United Kingdom. A first application for patent in these countries generates a 12-month priority term in the others. This can be advantageous in securing registrations in India and Pakistan, which are not members of the

International Convention. Certain British Colonies and former colonies also give effect to patents or trademarks registered in the United Kingdom.

Generic Trademark Problems

Obtaining registered protection abroad for your company's industrial property rights is, of course, a matter for private legal counsel. The job of policing these rights is likewise up to you and your legal adviser. However, there are Government services and statutory helps to assist you.

More than a hundred independent jurisdictions are registering trademarks abroad. It would be surprising if among the trademarks which foreigners seek to register there were not some that have a generic or descriptive status in the United States. Probably every trademark office in the world has been asked to register "wash-and-wear," or one of its foreign variants, such as "have y listo" in the Spanish-speaking countries. Most such applications are routinely denied by the local authorities. But experience has shown that some will be accepted, unless someone intervenes to prevent registration.

Basically, our interest is to avoid a situation where an individual or firm acquires exclusive rights to such terms, without appropriate disclaimers. If this happens, it becomes impossible to use common product names in foreign advertising, goods may be refused entry into the country, and one trading in such goods risks being sued for trademark infringement.

When we learn of a foreign generic word application we prepare instructions concerning it to the U.S. Embassy in the country of application. The Embassy is given full details. Name of applicant, number of application, class or classes in which registration is sought, filing date and type of goods. The Embassy in effect is asked to take what steps it can to have the application denied. As much information as possible should be presented to illustrate the generic nature of the term involved, and to point up the detrimental effect which its registration as a trademark would have on trade between the United States and the foreign country.

These Embassy approaches do not replace the entering of formal oppositions to objectionable registrations. In some countries the authorities will deny the application as a result of the Embassy's approach; in others, they have made it clear that a private formal opposition, in accordance with the local trademark law, must be filed before a denial can be considered. Where this task can be assumed by private attorneys and trade groups, we welcome their assumption of the responsibility.

Foreign Infringement Problems

Protecting industrial property rights abroad is basically the responsibility of each company. This includes the prosecution of infringement actions. However, the Commerce Department, in cooperation with our Commercial Officers abroad, does undertake to

investigate and report on unauthorized use of U.S. trademarks and copying of designs.

The typical situation is one in which a U.S. manufacturer finds that a product of foreign manufacture which imitates his own has appeared in the United States or some third country and is being marketed in competition with him. The complainant believes the foreign product, mark, label, packaging, or advertising to be a copy of his own and therefore to infringe on his rights.

To assist in these instances it is necessary that as complete information as possible be furnished about the circumstances. If available, a sample of the foreign item and the U.S. product should be supplied, both in their original packages. Photographs may be suitable. A copy of the American firm's U.S. patent or trademark and foreign registration, if any, should also be furnished. If the U.S. patent or trademark has been litigated and upheld, a copy of the sustaining judgment offers valuable support. The name and address of the foreign producer is helpful.

Complaints registered by U.S. firms over the past few years have involved many types of products originating in many different countries. In general, the articles involved are, understandably, likely to be of a nature which lend themselves to quick, easy and inexpensive copying. Trademark problems are usually traceable to failure to make timely application to register, and to loss of rights resulting from unfair practices.

From time to time complaints are received that merchandise and packaging of foreign origin which bear a U.S. trademark or imitate American products or packages are being shipped to third countries, thus competing unfairly with U.S. exports to that third country. Whether any substantial help can be provided in these circumstances depends on the legal situation in the countries concerned and the degree of cooperation which may be forthcoming from the local manufacturer, exporter or importer, and governmental authorities.

If occurrences of this kind take place in markets where the U.S. trademark owner does not operate, the misuse may continue for an extended time without his knowing it. When the facts come to our attention, we advise the U.S. firm whose property rights appear to be violated, but further investigation is usually deferred until the U.S. firm expresses a desire to have the matter followed up.

Neither Commerce nor the U.S. Foreign Service can become involved in conflicts between two American firms. Therefore requests for assistance cannot be serviced if they involve steps against the interests of a competing American firm.

Other Remedies

There are several provisions of U.S. law administered by various Government agencies, which may be helpful in affording protection against foreign misuse of trademarks and other rights—effective, however, only for goods imported into the United States.

Section 42 of the Trademark Act of 1946 prohibits importation of articles bearing marks which are confusingly similar to or counterfeit of trademarks registered in the Patent and Trademark Office.

Section 526 of the Tariff Act of 1930 requires the Customs Service to prohibit importation of foreign-made goods bearing marks which have been registered in the Patent and Trademark Office by a U.S. citizen or corporation if a copy of the certificate of registration has been filed with the Treasury Department. Whereas section 42 prohibits importation of infringing trademarked goods, section 526 provides the U.S. trademark owner with affirmative protection against unfair competition.

Record your trademark

The procedure for recording trademarks with the Treasury is set forth in the Customs Regulations.

The regulations provide that a trademark owner may record its mark by application, which may be in the form of a letter, to the Commissioner of Customs, Washington, D.C.

A fee of \$100 for each mark must accompany the application together with a certified certificate of registration from the Patent Office and 1000 soft copies.

The accompanying article tells you how this action helps to protect you from unfair competition.

If an attempt is made to import goods bearing a mark which is a clear infringement of a recorded mark the merchandise will be denied entry unless the importer secures the written consent of the trademark owner or removes the offending mark. If as often happens, the mark on the imported product does not present a clear-cut case of infringement, Customs will detain the merchandise until both importer and trademark owner have had a chance to be heard. Customs decisions in such cases can be appealed to the U.S. District Courts.

Section 106, Title 17, United States Code, prohibits importation of articles bearing a false notice of copyright when there is no copyright thereon in the United States, or of any piratical copies of any work copyrighted in the United States. A procedure for obtaining Customs protection against the importation of such copies is prescribed in the Customs regulations, section 11.19.

Patent protection is not coextensive with the protection afforded trademark and copyright owners. There is no law which automatically excludes articles from import because they infringe patents.

Section 337 of the Tariff Act of 1930, as amended, authorizes the U.S. International Trade Commission to investigate alleged unfair methods of competition and unfair acts in the importation of articles or in the sale of imported articles in the United States.

Although there is no recordation procedure for patents, the Bureau of Customs will carry out on request a Patent Infringement Survey to assist the patent owner in taking appropriate action. The purpose of the survey is to provide patent owners with the names and addresses of importers bringing in articles that appear to infringe registered patents. Such information will be furnished for a period of 2, 4 or 6 months for a fee of \$1,000, \$1,500, or \$2,000 respectively.

The only information furnished is the name and address of the importers. The survey will not disclose quantities, price or any other information which normally might fall within the realm of trade secrets. Application may be made by letter addressed to the Commissioner of Customs. The procedure is set forth in the Federal Register in Part 12, section 12.39a of the Customs Regulations.

Arbitration

In any type of business transaction disputes inevitably arise. Most often companies settle their disputes through direct negotiation and agreement. Litigation is extremely rare and even when the facts are strongly favorable is avoided whenever possible, especially in foreign transactions. Most companies that operate on an international scale favor the inclusion of a mandatory arbitration clause in the contract as a less objectionable alternative to court action.

The American Arbitration Association is the principal arbitration organization in the United States. It has offices throughout the country and has reciprocal arrangements with organizations in many foreign countries. The International Chamber of Commerce also maintains a worldwide system of arbitration. Besides these institutions, there are many special arbitration tribunals in the various commodity trades, such as rubber, textiles, food distribution, and so on.

To make it possible for a dispute to be submitted to arbitration, the parties must have agreed to do so either in advance or after the dispute has arisen. If thereafter one of the parties refuses to take part, the arbitration will proceed nevertheless since the rules to which the parties have agreed contain provisions for procedure by default.

The various arbitration organizations have standard contract clauses which may be freely used. Use of one of the standard clauses enables the arbitration organization to have its own rules administered should a dispute arise.

The nature of disputes submitted to arbitration makes any classification of industries or classes of goods difficult. An approximate breakdown of arbitrations under ICC auspices shows, however, that roughly 20% involved licenses for patents, manufacturing processes, know-how and trademarks.

Most international traders who use arbitration clauses in their contracts with foreign parties may enforce favorable arbitral awards against a foreign party without difficulty. Although some countries do not have laws providing for execution of foreign arbitral awards, other remedies are now readily available.

By signing in 1970 the United States Convention for the Execution and Enforcement of Arbitral Awards, the United States provided the U.S. traders with means of enforcing awards. The 45 member countries have agreed to enforce awards issued in other member countries, if the awards meet the Convention's validity requirements and satisfy any special conditions of accession. Congress amended the basic Federal Arbitration Act (9 U.S.C. 1 et. seq.) in 1970 to increase the enforceability of arbitration agreements and awards made pursuant to the United Nations Convention (see article herein entitled "Enforcement of Foreign Arbitral Awards Under the U.N. Convention").

Furthermore, the United States has bilateral treaties of Friendship, Commerce, and Navigation with 42 countries. Of these treaties, 18 provide for the enforcement of arbitration agreements and awards in disputes between corporate or individual parties of the respective countries. Enforcement of such an award cannot be denied solely for the reason that the award was rendered in another country, or that the nationality of the arbitration was not that of the party concerned.

Selection of the remedies of U.N. Convention over those of the Friendship, Commerce and Navigation

Treaties is likely to depend on the country in which the award originated. If it originated in one of the 42 countries which have signed the U.N. Convention, most companies would make use of that convention.

Though 42 treaties of Friendship, Commerce and Navigation are now in force between the United States and other countries, only 18 of the treaties contain clauses on the enforcement of arbitral awards. These 18 treaties are with:

| | |
|---------------------------------|-------------------|
| Belgium | Italy |
| China | Japan |
| Denmark | Korea |
| France | Luxembourg |
| Germany, Federal Republic of | Netherlands |
| Greece | Nicaragua |
| Iran | Pakistan |
| Ireland | Thailand |
| Israel | Togolese Republic |

WORLD PATENT LAWS REVIEWED

By JOSEPH M. LIGHTMAN
Foreign Business Practices Division

Businessmen seeking patents abroad must file in each country where patent protection is desired. The United States is not a party to any treaty whereby a U.S. patent is automatically and protected in a foreign country, or vice versa.

The United States does adhere to various treaties, of which 95 countries under which exporters and importers can now receive the same treatment as those countries extend to their own national treatment.

Foreigners thus have the right to apply for, and enforce patent rights in such countries, and if under the patent laws therein without a U.S. patent, as though they were citizens of such country must, however, proceed under the laws of that country to obtain such rights; no U.S. patent is automatically in force.

A multilateral agreement on patent rights to which the United States is a party is the Paris Union Convention for the Protection of Industrial Property, which about 80 other countries also adhere to. The United States also adheres to the Berne Convention of 1910 on Inventions, Patents and Models, which includes the following American countries: Bolivia, Brazil, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Nicaragua, Paraguay, and Uruguay.

In addition to the national treatment principle, the Paris Convention embodies certain special advantages for foreign businessmen seeking patent protection abroad. The most important is the 12-month "right of priority" which allows an inventor to file his patent application in one country and then, within 12 months, file in another member country in which to obtain patent rights. In the United States, filing rights are thereby preserved for 12 months in Convention countries.

Under the Paris Union Convention, he also receives protection for his foreign patents against arbitrary foreign subject matter of the patents is not worked.

The United States has also concluded a number of agreements with countries, some of which are parties to the above Conventions, under which U.S. citizens receive national treatment and other advantages against discriminatory practices in acquiring patent rights.

Most countries, including those that have become independent since the end of World War II, have patent laws. There are only a few that have no system of patent protection, most notably Thailand, Ethiopia, Saudi Arabia, and People's Republic of China. Many independent countries provide patent protection only on the basis of a patent first acquired in the former parent country. Examples are Ghana where a "confirmation patent" is issued based on a patent first acquired in the United Kingdom, and Cambodia and Burma, where French and Indian patents, respectively, are recognized as being in force.

There are certain countries that provide, in addition to regular patents of invention, so-called "introduction," "revalidation" or "importation" patents. These can be applied for on an invention already patented elsewhere, by the same patent owner, or, after a period of time, by a local national. Such patents expire at the duration of their basic foreign patents. Their purpose is to permit an invention to be introduced and protected, notwithstanding its prior patenting in other countries.

The USSR, Bulgaria, Poland, Romania, Albania, and Algeria provide for issuance of so-called "inventors' certificates," as well as patents. The inventors' certificate system is used extensively in the USSR. Under its procedures, an inventor may offer his invention outright to the State, which assumes its ownership and exclusive use. If used by the State, it entitles the inventor to a cash reward or other specific benefit. In such dual system countries, the inventor generally has the right to choose between applying for an inventors' certificate or a patent. Local inventors in Eastern Europe generally apply for inventors' certificates; foreigners apply for patent rights because of certain impracticalities in acquiring inventors' certificates.

Regionally, there is an international patent filing and registration system in Africa, under the African and Malagasy Industrial Property Office, in Yaounde, Cameroon, established in 1962 by 12 independent countries formerly French African colonies (see summary).

In Western Europe, 14 countries signed an European Patent Convention in Munich, in October 1973. Under the Convention's procedures, anyone, irrespective of nationality, will be able to file a single international application at the European Patent Office for a so-called "European Patent." The application must designate those European countries in which the European Patent

is sought. Upon completion of the application's examination, the European Patent will be granted, and exist, in effect, as a national patent in the designated countries. International applications filed under the Treaty may be subject to proceedings before the European Patent Office which will also be responsible for an international search and the preliminary examination. Entry into force of the Treaty must await ratification by six European countries in which a total of 180,000 patent applications were filed in 1970.

The European Common Market countries are also due to negotiate a corollary European Convention to eventually abolish national patent laws and create a unified patent law for the EEC members. Under its provisions, an EEC Patent will be issued applicable in each member country. In effect, the EEC will operate as a single country under the European Patent Convention.

As to salient features in existing world patent laws, there are still many variations with respect to such matters as exceptions to patentability (i.e. patents only for medicinal and food processes, not products, or for both), examination and opposition procedures (in some cases none), duration of patents (ranges from 5 to 20 years from application filing or registration date), and compulsory licensing (immediate, or 1- to 5-year grace period).

A patent Cooperation Treaty (PCT), adopted in June 1970, by the United States and about 20 countries, would simplify international filing procedures by allowing a patent applicant to file one application at a central source. Such a filing would have the effect of a filing in every member country where he desires protection. The Treaty also calls for centralized patent search and examination procedures and allows a patent applicant 20 months, instead of the more typical 12-month period, in which to complete his application documents. The PCT will enter into force when ratified by eight countries, four of which must have major patent activity. The United States cannot deposit its instrument of ratification until implementing legislation is enacted.

Those interested in protecting their industrial property rights abroad should secure the services of legal counsel for advice and assistance on the specific procedures to be followed in the countries in which they desire to do business.

Afghanistan—No patent law. Some common law protection available for inventions and designs against imitation.

African and Malagasy Union—Member countries: Cameroon, Central African Republic, Chad, Congo (Brazzaville), Dahomey, Gabon, Ivory Coast, Malagasy Republic, Mauritania, Niger, Senegal, Togo, and Upper Volta. Inquiries and applications should be directed to the Office Africain et Malgache de la Propriété Industrielle (OAMPI) located in Yaounde, Cameroon.

Invention patents valid in all member countries 20 years after application. Prior publicity anywhere prejudicial. No novelty examination. No opposition provision. Compulsory licensing possible 3 years after application, whichever is later, if working inadequate or if working interrupted for any 3-year period. French

patents in force prior to dates of independence of the various countries may receive protection for 20 years from application filing date if reevaluated with OAMPI before March 31, 1967.

Albania—Invention patents valid 15 years from application date, inventors' certificates also granted. Chemical manufacturing processes patentable, but not chemicals, medical and some biological inventions eligible only for certificates. Prior publication or use anywhere prejudicial. Novelty examination. Opposition period 3 months. No provision for working. Compulsory licensing provision.

Algeria—Invention patents valid 20 years from application filing date. Confirmation patents valid 10 years from filing date of foreign patents upon which based, if such foreign patents granted before January 1, 1966. Inventors' certificates also granted. Prior publicity anywhere prejudicial. No novelty examination or opposition. Confirmation patent must be worked 1 year from grant and not discontinued for more than a year, otherwise can be cancelled. Compulsory license on invention patents possible 3 years from grant or 4 years from application date if not adequately worked. French patents valid in Algeria on July 3, 1962, remain in force if continuously worked by patentee or his assignee.

Antigua (also British Virgin Islands)—Patents valid 14 years from application filing date. Confirmation patents, co-terminous with U.K. patents also granted; must be filed within 3 years of latter. No novelty examination. For independent patents, public use in Antigua prejudicial. No working. Compulsory licensing possible.

Argentina—Invention patents granted for 5, 10, or 15 years; 15 years after grant only for important inventions. Patents of importation good for up to 10 years. Pharmaceutical manufacturing processes patentable. Prior publication anywhere, or grant of foreign patent (except for Argentine import patents), or public use in Argentina prejudicial. Novelty examination. No opposition provision. Working required 2 years after grant, not to be interrupted for any 2-year period. No compulsory licensing provision. Importation or advertised offer of sale may constitute working.

Australia—Invention patents valid 16 years after application, renewable up to 10 years where inadequately remunerated; provisional protection available 1 year. Prior publication, public use, or disclosure in Australia prejudicial. Novelty examination. If no examination requested within 5 years of application filing date, application will lapse. Applicant may also request modified examination for application based on patent issued in the United Kingdom or the United States. Opposition period 3 months. Compulsory licensing possible 3 years after grant if inadequately worked; revocation possible 2 years after first compulsory license. Patent registration should be marked on product.

Austria—Invention patents valid 18 years after application. Prior published description anywhere, or use

or exhibition in Austria prejudicial. Novelty examination. Opposition period 4 months. Compulsory licensing possible 3 years after grant or 4 years after application, if inadequately worked.

Bahamas—Patents granted before June 1, 1967 (new Act effective date), valid 7 years, renewable twice for 7 years each time. Under new Act, invention patents valid 16 years from application filing date. Publication, public use, or knowledge prejudicial. No novelty examination, opposition, compulsory licensing or working requirement.

Bahrain—Confirmation of U.K. patents only, applications must be filed within 3 years of corresponding U.K. patent.

Bangladesh (Formerly East Pakistan)—Declared independence March 25, 1971. Adopted Pakistan Patent Law. Applications pending in Pakistan on above date should be refiled in Bangladesh and reference made to earlier Pakistan filing, with proof.

Barbados—Invention patents valid 14 years from application date, renewable for 7 years. Provisional protection available 9 months. Foreign patent holders entitled to "Letters of Registration." Public use in Barbados prejudicial. No novelty examination, Opposition period 2 months. No compulsory licensing provision.

Belgium—Invention patents valid 20 years after application; patents of importation valid up to 20 years. Patentable inventions must be industrially or commercially workable. Prior commercial use in Belgium, patent or publication anywhere prejudicial except for import patents. No novelty examination, form only. No opposition provision. Working required 3 years after grant (1 year for countries not party to Paris Union) not to be interrupted for any 12-month period. No compulsory licensing provision.

Bermuda—Invention patents valid 16 years from patent grant, renewable 7 year periods. Patents also available as confirmation of U.K. patents, if applied for within 3 years of latter's grant date. Co-terminous duration with latter. No novelty examination. For independent patents, use and sale in Bermuda prejudicial. No opposition for independent patents; 2 months for confirmation patents. No working provisions but compulsory licensing possible.

Bolivia—Invention patents valid up to 15 years after grant, including renewals; confirmation patents valid up to 15 years. Prior knowledge, description, working or nonpatent publication anywhere prejudicial. Foreign patent not prejudicial, if application filed within 1 year of foreign application. No novelty examination. Published twice in 1 month at 15-day intervals for opposition. Compulsory licensing possible 2 years after grant, if inadequately worked or, if working interrupted for any 1-year period. Importation or advertised offer to license may constitute working.

Botswana—Confirmation patents based on prior registration in Union of South Africa. U.K. patents automatically in force, recordation unnecessary.

Brazil—New law effective December 31, 1971. Patents granted before then valid for terms stated in patent grant. Under new law, invention patents valid 15 years from application filing date. Use or publication anywhere prejudicial. Application published 18 months from earliest priority or filing date. Applicant can request examination within 24 months, otherwise application deemed abandoned. Opposition period 90 days. Working required within 3 years after grant and not interrupted for longer than 1 year, otherwise subject to compulsory license. Failure to work within 4 years, or if license issued after 5 years, working is discontinued for 2 consecutive years, patent considered lapsed.

British Honduras—Patents valid 14 years from application filing date, renewable 7 or 14 years. Co-terminous with prior corresponding foreign patent, if latter exists. Confirmation patents based on and co-terminous with U.K. patents granted, if applied for within 3 years. No novelty examination, working or compulsory licensing provisions.

Brunei—Patents granted as confirmation of and co-terminous with U.K., Malaya, or Singapore patents, to be applied for within 3 years of grant in latter countries. No novelty examination, working or compulsory licensing provisions.

Bulgaria—Invention patents valid 15 years after application; law also provides for inventors' certificates. Some medical and biological inventions eligible only for certificates. Prior publication or public knowledge anywhere prejudicial. Novelty examination. No opposition. Working and licensing provision; 3 years after grant or 4 years after application. Importation may qualify.

Burma—No patent law, Indian patents valid.

Burundi—Invention patents valid 20 years from application filing date, importation patents valid to 20 years. Public use anywhere prejudicial. No novelty examination or opposition. Patent must be worked within 2 years, otherwise can be cancelled. No compulsory licensing provision.

Cambodia—French patents applicable, file with Chief Registrar of Phnom Penh Commercial Court.

Canada—Patents valid 17 years after grant. Chemical manufacturing processes patentable. Prior knowledge, use, patent, or description anywhere, or public use or sale in Canada more than 2 years prior to Canadian application prejudicial. Canadian application must be filed either before grant of first foreign patent or within 12 months of first foreign application. Novelty examination. Opposition period not provided, but protest may be filed. Compulsory licensing may be ordered by Patent Commissioner 3 years after grant, and if licenses are insufficient, patent may be revoked. Patent registration should be marked on product.

Chile—Invention patents valid up to 15 years after grant, including renewals. If invention patented abroad, patent is co-terminous with original foreign patent. Prior public knowledge, use, sale, or publication anywhere, or importation into Chile prejudicial. Foreign patent not

prejudicial, if invention not commercially known in Chile. Novelty examination. No working or compulsory licensing provisions. Patent registration must be marked on product.

People's Republic of China (Mainland China)—No patent law. Parties can apply for inventor's certificate on invention, which, if granted, entails cash awards and other benefits to applicant based on invention's value to State. Foreigners presumably may apply for inventors' certificates. State retains ownership under inventors' certificate registrations.

China (Taiwan)—Invention patents valid 15 years after application; addition patents co-terminous with basic patent. Prior foreign patent application over 1 year previous to application in China, or publication or public use in China prejudicial. Novelty examination. Opposition period 6 months. Compulsory licensing or revocation possible 3 years after grant, if inadequately worked. Patent registration should be marked on product.

Colombia—Invention patents valid 8 years after grant, renewable additional 4 years. Use or publication anywhere prejudicial. Novelty examination only after application examined for formalities and published. Opposition period 60 days. Compulsory license 3 years after grant or 4 years after filing whichever last expires, if patent not adequately worked.

Costa Rica—Invention patents valid 20 years after grant; confirmation patents co-terminous with basic patent up to 20 years. Prior public knowledge or use in Costa Rica prejudicial for confirmation patents, anywhere for other patents. Novelty examination. Opposition period 30 days. Working required 2 years after grant, not to be interrupted for any 3-year period, no compulsory licensing provision.

Cyprus—Patents only obtainable as confirmation of U.K. patents. Request must be made within 3 years of U.K. patent grant date.

Czechoslovakia—Invention and dependent patents valid 15 years after application. Chemical and medicinal manufacturing processes patentable, certain medical treatments and biological inventions eligible only for inventors' certificates. Prior public knowledge anywhere via publication, patent description, or display prejudicial. Novelty examination. Opposition period 3 months. No working requirement, but use of patent in public interest may be ordered, 4 years after filing, or 3 years after grant, whichever is later.

Denmark—Invention and dependent patents valid 17 years after application; addition patents co-terminous with basic patent. Prior published description or public use anywhere prejudicial. Novelty examination. Opposition period 3 months. Compulsory licensing possible 3 years after grant or 4 years from application filing date, if inadequately worked.

Dominican Republic—Invention and revalidation patents valid up to 15 years after grant, including renewals. Medicines and chemicals patentable if ap-

proved by Medical Board. Public knowledge or use anywhere prejudicial. No novelty examination. Foreign patenting or importation no bar. No opposition provision. Working required 5 years after application, not to be interrupted for any 3-year period. No compulsory licensing provision.

Dutch Antilles—See Netherlands.

Ecuador—Invention patents valid up to 12 years after grant. Importation patents valid up to 12 years, apply regionally or over whole country. Revalidation patent based on, and co-terminous with, patent owned in United States or certain Latin American countries. Prior existence or public knowledge in Ecuador prejudicial. Opposition period 90 days. Compulsory licensing invention patents 2 years after grant, if inadequately worked, or if working interrupted for any 2-year period, import patents may lapse if working interrupted any 6-month period.

Ethiopia—No patent law. Publication of cautionary notices in local press and informing government of existence of foreign patent may afford some protection.

Fiji Islands—Patents valid 14 years from grant, or until corresponding first foreign patent expires. Confirmation patents co-terminous with U.K. patents also granted. No novelty examination. Use or publicity in Fiji prejudicial. No working or compulsory licensing provisions.

Finland—Invention patents valid 17 years after application. Prior publication in any form anywhere, or public disclosure prejudicial. Novelty examination. Opposition period 3 months. Compulsory licensing or revocation possible 3 years after grant or 4 years from application date, if inadequately worked, or if needed to work another patent.

France—Invention patents valid 20 years from filing date. Law also provides for "Certificates of Utility," issued for 6 years. Public knowledge anywhere, including publication of a corresponding patent in an official journal, prejudicial. Novelty examination for invention patent, not utility certificate, applications. Compulsory licensing possible 3 years after grant or 4 years after patent filing date, if inadequately worked, or if working discontinued for any 3-year period. Special legislation applies to patenting of pharmaceutical products. Under "deferred examination" procedure patent applicant has 2 years to postpone request for novelty examination, except in pharmaceutical cases. If no request made during that period, application converted to one for "Certificate of Utility." No opposition provision but application laid open for 18 months to permit public comment. Patents applied for before new law effective date (1/1/69) remain subject to former law.

Gambia—Patents only obtainable as confirmation of U.K. patents. Request must be made within 3 years of U.K. patent grant date.

Germany, Democratic Republic of—Exclusive or industrial (economic) patents granted. Valid 18 years

from application filing date. Publication, use East Germany, described printed publication anywhere prejudicial. Exclusive patent vests ownership rights in registrant. Compulsory license may be ordered, if not sufficiently worked. Industrial patent vests rights in registrant, also any third parties authorized by Patent Office, after applying thereto for license. Patent Court at Leipzig has jurisdiction infringement cases.

Germany, Federal Republic of—Invention patents valid 18 years after application. Prior public use in Germany or printed descriptions anywhere (including patent applications and registered utility models) prejudicial. All applications given preliminary screening. Applications opened for public inspection for 18 months after filing. Applicant can postpone full novelty examination request for 7 years; if no request made by that time, application lapses. Opposition period 3 months. Compulsory licensing possible at any time, revocation possible 2 years after first compulsory licenses if inadequately worked. Patenting in United States constitutes working in Germany.

Ghana—Patents only obtainable as confirmation of U.K. patents, except those for pharmaceuticals. Request must be made within 3 years of U.K. patent grant date.

Greece—Patents valid 15 years after application. No novelty examination. No opposition provision. Revocation possible 3 years after grant, if inadequately worked; compulsory licensing possible if needed to work another patent. Advertised offers of licensing may be considered working. Owners of corresponding U.S. patents exempted from working requirement.

Guatemala—Invention patents valid 15 years after grant. Importation patents co-terminous with basic patent up to 15 years. Inventions to be patentable must meet positive criteria listed in the patent law, prior public knowledge in Guatemala prejudicial for importation patents, anywhere for other patents. Novelty examination. Opposition may be filed within 40 days after first publication. Compulsory licensing possible 1 year after grant if inadequately worked or if working interrupted for any 3-month period.

Guyana—Invention patents valid 16 years after application. Publication, working, sale, or use in Guyana prejudicial. Novelty examination. Opposition period 2 months. Compulsory licensing or revocation possible after 3 years if inadequately worked. Patent legislation should be marked on product. Confirmation patents based on U.K. registration also issued.

Haiti—Invention and revaluation patents valid up to 20 years after grant, including renewals, addition patents co-terminous with basic patent. Public use or publication anywhere more than 1 year prior to application prejudicial. No novelty examination, opposition, compulsory licensing or working provisions.

Honduras—Invention patents for nationals valid up to 20 years after grant, for foreigners, granted for life of basic patent. Prior publication or use in Honduras prejudicial for import patents, anywhere for other

patents. Novelty examination. Opposition period 90 days. If patent is not worked within 1 year after grant, patent lapses. Patent marking necessary to maintain infringement actions.

Hong Kong—Patents only obtainable as confirmation of patents granted in the United Kingdom. Application for protection must be filed within 5 years of U.K. patent issue date. Hong Kong patent expires with corresponding U.K. patent.

Hungary—Patents valid 20 years from application filing date. Application first examined for formalities and published, if accepted. Applicant or others then have 4 years to request complete novelty examination, otherwise application considered abandoned. Prior use or publication anywhere prejudicial. Opposition period 3 months after full examination. Compulsory licensing if patent not worked within 4 years of filing or 3 years from grant whichever is later.

Iceland—Invention patents valid 15 years after grant. Prior publication anywhere, including use or display in Iceland, prejudicial. Novelty examination. Opposition period 12 weeks. Compulsory licensing possible 5 years after grant if inadequately worked or 3 years after grant if needed to work another patent.

India—Invention patents valid 14 years after application, other than for foods and drugs. Food and drug process patents valid 7 years. Prior public knowledge or use in India prejudicial. Novelty examination. Opposition period 4 months. Compulsory licensing possible 3 years after grant for inadequate working. All patented articles must be marked with number and year of patent. Reciprocal priority rights granted on basis of applications filed in certain Commonwealth countries. Not member of Paris Union. Applications pending on April 20, 1972, are granted for 5 years or 7 years from 1972 date, whichever shorter.

Indonesia—Pending passage of patent legislation, applications may be filed with the Indonesian Justice Department. Although applications will not be acted on until a patent law is passed, they will reportedly be given priority over later filings.

Iran—Invention patents valid up to 20 years after application, addition or improvement patents co-terminous with original. Importation patents co-terminous with foreign patents. Except for import patents, prior publication in official publications or journals anywhere, prejudicial. No novelty examination. Opposition period not specified. Revocation possible 5 years after grant if inadequately worked. No compulsory licensing provision.

Iraq—Invention patents valid 15 years from date of application, patents of importation for unexpired term of then foreign basic patents up to 15 years. Prior public knowledge or use anywhere prejudicial. No opposition provision. Patent must be worked within 3 years and not discontinued for 2 years, otherwise subject to compulsory license or revocation.

Ireland—Invention patents valid 16 years after application, exceptionally renewable up to 10 years when inadequately remunerated. Prior public use or knowledge anywhere prejudicial. Novelty examination. Opposition period 3 months. Compulsory licensing possible 3 years after grant or 4 years after application date, if inadequately worked. Revocation possible 2 years after first compulsory license. Importation does not constitute working. Patent registration should be marked on product.

Israel—Invention patents valid 20 years after application. Prior publication, use, or sale anywhere prejudicial. Novelty examination. Opposition period 3 months. Compulsory licensing possible 3 years after grant or 4 years after application date, if inadequately worked, revocation possible 2 years after first compulsory license.

Italy—Invention patents valid 15 years after application. Pharmaceutical products and processes are not patentable. Prior public knowledge anywhere prejudicial. No novelty examination or opposition provisions. Compulsory licensing possible if inadequately worked 3 years after grant, or 4 years after application or if working interrupted for any 3-year period. Exhibition may constitute working, but not importation.

Jamaica—Invention patents valid 14 years after application, renewable 7 years, confirmation patents based on foreign patents co-terminous with original. Prior publication or public use in Jamaica prejudicial, except for confirmation patents. No novelty examination. No opposition provision. No working or compulsory licensing provisions.

Japan—Invention patents valid 15 years from date application published, cannot exceed 20 years application filing date. Application open to public inspection 18 months from filing date. Examination can be postponed 7 years at applicant's request; if no request for examination made at that time, application lapses. Publication anywhere or public knowledge or use in Japan prejudicial. Novelty examination. Opposition period 2 months. Compulsory licensing possible 3 years after registration or 4 years after filing, if inadequately worked or if needed to work another patent.

Jordan—Invention patents valid 16 years after application. Prior publication, use, or sale in Jordan prejudicial. Novelty examination. Opposition period 2 months. Compulsory licensing or revocation possible 3 years after grant, if inadequately worked.

Kenya—Patents only obtainable as confirmation of U.K. patents. Request must be made within 3 years of U.K. patent grant date.

Korea, Republic of—Invention patents valid 12 years after grant or 15 years after application, whichever is less. Public knowledge or use in Korea, or appearance in publications distributed in Korea prejudicial. Novelty examination. Opposition period 2 months. Compulsory licensing or cancellation possible 3 years after grant if

inadequately worked or if working interrupted for any 3-year period. Patent registration must be marked on product.

Kuwait—Invention patents valid 15 years after application, renewable 5 years. Special patent for medicines, pharmaceuticals, or foods valid 10 years. Recent publication or use in Kuwait prejudicial. No novelty examination. Opposition period 2 months. Compulsory licensing possible 3 years after grant if inadequately worked or if working interrupted for any 2-year period.

Laos—French Patent Law of 1844 applicable. Application should be filed with Superior Appeal Tribunal of Vientiane.

Lebanon—Invention patents valid 15 years after application. Prior publication anywhere prejudicial. No novelty examination. No opposition provision. Working required 2 years after grant. For nationals of Paris Union countries, however, allowance period is 3 years. No compulsory licensing provisions. Direct offer to license one capable of working the invention may constitute working, but importation does not.

Lesotho (formerly Basutoland)—Confirmation patents based on Union of South Africa patents, issued for remaining term of corresponding patent in latter country. U.K. patent automatically protected for its duration; no local registration or confirmation required. Marking of article to indicate patent desirable.

Liberia—Invention patents valid 20 years after grant. Prior public knowledge, publication, or use in Liberia prejudicial. No specific exclusions from patentability. No novelty examination. No opposition provision. Working required 3 years after grant.

Libya—Invention patents valid 15 years after application, renewable 5 years. Processes for making foodstuffs, medicines or pharmaceutical preparations patentable for 10 years. Public use or publication in Libya prejudicial. No novelty examination. Opposition period 2 months. Working required in Libya or country of origin within 3 years, 2-year extension possible. Compulsory licensing can be ordered at any time.

Liechtenstein—Swiss patents automatically valid without any required formalities.

Luxembourg—Invention patents valid 20 years after application. Prior public knowledge or use anywhere prejudicial. No novelty examination or opposition provision. Compulsory licensing possible after 3 years, nonworking for 3 years can also result in revocation.

Malawi—Invention patents valid 16 years from application filing date. Prior public use or knowledge in Malawi, or in printed publications anywhere prejudicial. No novelty examination. Opposition period 3 months. Compulsory license can be ordered, if patent not sufficiently worked within 3 years.

Malaysia—Federation consisting of former areas of Malaya, Sabah and Sarawak; each still has separate patent law. In Malaya and Sabah, U.K. patent is

applicable, it must be registered separately within 3 years of U.K. grant, in each territory to be in force, remains in force for the duration of U.K. registration. In Sarawak, application may be filed any time based on patent in the United Kingdom, Singapore, or Malaya.

Malta—Invention patents valid 14 years from application, renewable 7 years. Publicity anywhere prejudicial. No novelty examination. Opposition period 2 months. Compulsory licensing possible, if not worked in 3 years.

Mauritius—Invention patents valid 14 years from application, renewable for like period. Publicity or use in Mauritius prejudicial. No novelty examination. Opposition period 1 month. No working or compulsory licensing.

Mexico—Invention and improvement patents valid 15 years after application, 12 years if not commercially worked. Recent prior publication, patent, or working anywhere prejudicial. Novelty examination. No opposition provision. Working required within 3 years and not discontinued more than 6 consecutive months otherwise compulsory licensing possible.

Monaero—Invention patents valid 20 years after application. Publicity or use anywhere prejudicial. No novelty examination or opposition. Working required within 3 years after grant otherwise subject to compulsory licensing.

Morocco—Although country consists of former French Morocco, Tanger Zone and Spanish Zone, no unified patent law yet exists. Separate application for French Morocco must be filed with Industrial Property Office at Casablanca, and for Tangier, with Industrial Property Bureau in that area. Situation in ex-Spanish Zone unclear.

For Morocco, invention patents valid 20 years after application. Prior public knowledge anywhere prejudicial. No opposition provision. Working required 3 years after grant for nationals of Paris Union countries, 3 years after application for others; working not to be interrupted for any 3-year period. Reasonable offer to license or sell may constitute working; importation may be prejudicial. No compulsory licensing provision.

For Tangier Zone, invention patents valid 20 years and importation patent 10 years from application. Public use or publication anywhere prejudicial for basic invention patents. No novelty examination or opposition provision. Working required within 3 years, otherwise subject to compulsory licensing.

Namibia (South West Africa)—Patent matters administered by South African Patent Office. Invention patents valid 14 years from application filing date, renewable 7 or 14 year periods. No novelty examination. Prior use in Namibia, or abroad more than 2 years before filing, prejudicial. No opposition. Compulsory license possible if not worked within 2 years.

Nauru—Patents granted as confirmation of and co-terminous with Australian patents. Must be applied

for within 3 years of latter's grant date. No working or compulsory licensing provisions.

Nepal—Invention patents valid 15 years after grant, extendible for two additional 15-year periods. Applications screened for novelty regarding known or use in Nepal, rejected if criteria not met.

Netherlands—Invention patents granted before new law, Jan. 1, 1964, valid 18 years from date of grant. Under new law, 20 years from end of filing month or 10 years from end of grant month, whichever period lasts longer. Prior publication, public knowledge, or use anywhere prejudicial. Novelty examination. Applicant has 7 years after filing to request complete examination, if no request made by then, application lapses. Opposition period 4 months. Compulsory licensing possible 3 years after grant if inadequately worked, at any time if needed to work another patent. Patent registration should be marked on product.

Old Netherlands law as of 1948 (not 1956 revision) still in effect in Dutch Antilles and Surinam.

New Zealand—Invention patents valid 16 years after application, renewable up to 10 years. Recent prior publication in patent specification anywhere, or publication or use in New Zealand prejudicial. Novelty examination. Opposition period 3 months. Working within 3 years after grant. Subject to compulsory licensing at any time for foods and medicines; revocation after 2 years, if licensing unsatisfactory.

Nicaragua—Invention patents valid 10 years after grant. Public knowledge in Nicaragua prejudicial. Processes patentable, but not products. Examination for usefulness only. Opposition period 30 days. Working required 1 year after grant, not to be interrupted for any 1-year period. Sworn affidavit and advertised offer of sale or license constitutes working. No compulsory licensing provision. Patent registration should be marked on product.

Nigeria—Patents granted under former law continue until term expires. New law effective December 1, 1971. Invention patents valid 20 years after application. Use or publication anywhere prejudicial. No novelty examination or opposition provisions. Compulsory licensing possible 3 years from grant or 4 years from application date, if inadequately worked.

Norway—Invention patents valid 17 years after application. Prior publication and use anywhere prejudicial. Novelty examination. Opposition period 3 months. Compulsory licensing possible 3 years after grant or 4 years after application, if inadequately worked, if working interrupted or if needed to work another patent.

Oman, Qatar, United Arab Emirates (Abu Dhabi, Dubai)—No patent laws. Customary notice in certain Lebanese newspapers circulating these States may afford some protection.

Pakistan—Invention patents valid 16 years after application. Prior public knowledge or use in Pakistan

prejudicial. Novelty examination. Opposition period 4 months. Working required within 4 years of grant, otherwise compulsory licensing possible. Patent registration should be marked on product. Not member of Paris Union, but reciprocal priority rights granted to applications filed in certain Commonwealth countries.

Panama—Invention patents valid up to 20 years. Revalidation patents co-terminous with foreign patents up to 15 years. Prior public knowledge in Panama prejudicial. No novelty examination. Opposition period 90 days. Patents may lapse if not worked when one-third of term has passed; working not required for revalidation patents. No compulsory licensing provision.

Paraguay—Invention patents valid 15 years after application, confirmation patents co-terminous with basic patent up to 15 years. Publication of foreign patent 1 year prior to Paraguayan application, or prior working or public disclosure in Paraguay prejudicial. No novelty examination. No opposition provision. Compulsory licensing possible if not worked for any 3-year period.

Peru—Invention patents valid 10 years from grant. Precautional patents, based on foreign patents, valid 1 year only for person domiciled in Peru. Novelty examination. Prior use in Peru or publication anywhere, and not later than 2 years from filing date of first foreign application, prejudicial. Opposition period 30 days after application last published. Working required within 2 years of grant; period extendable 2 years. Compulsory license possible if patentee importing product, local working insufficient, or needed to work another patent.

Philippines—Patents valid 17 years after grant. Prior patent or published description anywhere, or use or sale in the Philippines 1 year before application prejudicial. Novelty examination. No opposition provision. Compulsory licensing possible 3 years after grant if patent not worked on a commercial scale, or if it relates to food or medicine or the article is necessary for public health or safety. Patent registration must be marked on product; otherwise damages for infringement cannot be recovered.

Poland—Regular patents valid 15 years from application filing date. Applications published 18 months after examination formalities. Full examination must be requested within 6 months' publication. Applicant can request provisional examination and grant of provisional patent for 5-year duration. Has 4 years after application date to request full examination and conversion to regular patent, if provisional patent sought first. Law also embodies inventor's certificate system, similar to Soviet Union, with State assuming ownership of inventions thereunder and granting awards based on inventor's use.

Portugal—Invention patents valid 15 years after grant. Prior publication anywhere or public use in Portugal prejudicial. Novelty examination in case of opposition. Opposition period 3 months. Compulsory licensing possible 3 years after grant, if inadequately

worked, if working interrupted for any 3-year period, or if needed to work another patent.

Rhodesia—Invention patents valid 20 years after application. Provisional protection available for 12 or 15 months with fine. Use or working in Rhodesia or publication anywhere prejudicial. Novelty examination. Opposition period 3 months. Compulsory licensing possible 3 years from grant date or 4 years after application date, if not adequately worked.

Romania—Invention patents valid 15 years after application, patents of addition for period of 5 years of patent but no less than 10 years. Inventors' right provided for in law. Filing acceptable if invention previously filed or patented in Romania or if not revealed anywhere. No opposition provision. Working required 4 years after application or 3 years after grant, otherwise subject to compulsory licensing.

Rwanda—Invention patents valid 20 years after application. Importation patents co-terminous with responding foreign patents, not to exceed 10 years. Public use in Rwanda or publication anywhere prejudicial. No novelty examination or opposition provision. Patent must be worked within 2 years from date of grant abroad, otherwise can be cancelled. No compulsory licensing.

Ryukyu Islands (Okinawa)—Reverted to Japan. Since 15, 1972, Japanese patent law extends to this area.

Salvador—Invention patents valid up to 15 years after grant, renewable 5 years in exceptional cases. Prior publication (except in foreign patent documents) or public use anywhere prejudicial. No novelty examination. Patent can be applied for based on foreign patent if no other publication occurred. Opposition period 30 days. No working or compulsory licensing provisions. Nonworking may constitute grounds for expiration of patent. Patent markings on products are compulsory.

Western Samoa—Two types of patent rights available. Invention patents based on applications filed in Western Samoa valid 16 years from grant. "Certificate of patent registration" based on foreign patent, limited to shortest term of all corresponding foreign patents. Patent must be filed within 2 years of foreign patent grant. Priority dates given to New Zealand applications filed on New Zealand patents. Opposition period 4 months. No working or licensing provisions.

San Marino—Industrial property rights obtained in Italy applicable.

Saudi Arabia—No patent law. Can publish declaration of ownership notice of foreign patent in local "Official Gazette" or newspaper for such rights then offer in seeking court action against infringers.

Sierra Leone—Patents only obtainable as continuation of U.K. patents. Request must be made within 5 years of U.K. patent grant date.

Singapore—Patents only obtainable as continuation of U.K. patents. Requests must be made within 5 years of U.K. patent grant.

Somali-Fo ("Northern Territory," former British Somaliland, patents only obtainable as confirmation of U.K. patents. Request must be made within 3 years of U.K. patent grant. In "Southern Region," formerly Italian territory, patents granted for 15 years. Prior knowledge of invention in country prejudicial.

South Africa-Patents valid 16 years after application, renewable up to 10 years. Prior public knowledge, use, or working in South Africa, or publication anywhere prejudicial. No novelty examination. Opposition period 3 months. Compulsory licensing possible 3 years after grant or 4 years after application, whichever is later, if inadequately worked, if needed to work another patent, or for foods, plants, or medicines. Importation does not constitute working. Patent registration should be marked on product.

Spain-Invention patents valid 20 years after grant. Patents of importation valid 10 years and may be applied for by anyone. Recent public knowledge or working in Spain prejudicial for import patents, anywhere for other patents. No novelty examination. No opposition provision. Compulsory licensing required 3 years after grant if not worked. Importation patents must be worked annually to remain in force.

Sri Lanka-Patents valid 14 years after application, renewable in exceptional cases 7 or 14 years; confirmation of U.K. patent co-terminous with original. Prior use or publication in Sri Lanka prejudicial. Novelty examination. Opposition period 3 months. Compulsory licensing or revocation possible 3 years after application, if inadequately worked.

Sudan-No patent law. Can publish cautionary ownership notice of foreign patent in local "Official Gazette" for such rights this may offer in seeking court action against infringers.

Swaziland-Confirmation patents based on prior registration in Union of South Africa. U.K. patents automatically in force.

Sweden-Invention patents valid 17 years after application. Prior publication or public use anywhere prejudicial. Novelty examination. Opposition period 3 months. Compulsory licensing possible 3 years after grant or 4 years after application, if inadequately worked, or if needed to supplement an earlier patent.

Switzerland-Invention patents valid 18 years after application. Prior public knowledge in Switzerland or published disclosure anywhere prejudicial. Textile and time piece inventions subject to novelty examination. Opposition period 3 months. Compulsory licensing possible 3 years after grant, if inadequately worked, or if needed to work another patent. Patenting in United States satisfies working requirement.

Syria-Invention patents valid 15 years after application. Prior public knowledge anywhere prejudicial. No novelty examination. No opposition provisions. Working required 2 years after grant. No compulsory licensing provision.

Tanzania-(Consists of former Tanganyika and Zanzibar areas; now joined as independent State, former separate laws for each area still in effect). In former Tanganyika, confirmation of U.K. patents only for term of U.K. patent, application for confirmation patent must be made within 3 years of U.K. patent grant. In former Zanzibar, same situation prevails, except that registration in that area can be invalidated by manufacture, use and sale of invention subject-matter before priority date of U.K. patent.

Thailand-No patent law. Can inform U.S. Embassy in Bangkok and advertise in local newspapers patents owned abroad to establish prior use should law be enacted recognizing such use.

Trinidad and Tobago-Invention patents valid 14 years after grant, renewable for 7 years. Prior public use in Trinidad or Tobago prejudicial. No novelty examination or opposition. Compulsory licensing possible.

Tunisia-Invention patents valid up to 20 years after application. Prior publication, public knowledge, or public use anywhere prejudicial. No novelty examination. Opposition period 2 months. Working required 3 years after grant (2 years for non-Franco Union nationals), not to be interrupted for any 2-year period. Importation not considered working, could invalidate patent. No compulsory licensing provision.

Turkey-Patents valid up to 15 years after application, patents of importation granted co-terminous with basic foreign patents. Prior publication anywhere prejudicial. No novelty examination. No opposition provision. Compulsory licensing possible 3 years after grant, if inadequately worked or if working interrupted for any 2-year period.

Uganda-Patents only obtainable as confirmation of U.K. patents. Request must be made within 3 years of U.K. patent grant date.

United Arab Emirates-See Oman, Qatar

USSR-Soviet law provides for granting of either patents or inventors' certificates for new inventions. Patents are granted of 15 years' duration after application, inventors' certificates have unlimited duration. Full examination is made for novelty and usefulness, based on prior Soviet and foreign patents and publications and prior Soviet inventors' certificates. No opposition provision for patents, but annulment always possible. No working provision. Compulsory licensing possible.

United Arab Republic (Egypt)-Invention patents valid 15 years after application, renewable 5 years, food and drug process patents valid 10 years. Public use or publication in Egypt prejudicial. No novelty examination. Opposition period 2 months. Compulsory licensing possible 3 years after grant if inadequately worked, if working interrupted for any 2-year period, or if needed to work another invention. Revocation possible 2 years after first compulsory license.

United Kingdom-Invention patents valid 16 years after application, renewable 5 or 10 years where

inadequately remunerated. Prior public disclosure in the United Kingdom, or in foreign patent specifications available in the United Kingdom, prejudicial. Novelty examination. Opposition period 3 months. Compulsory licensing possible 3 years after grant, if inadequately worked. Revocation possible 2 years after first compulsory license.

Certain newly independent countries in the British Commonwealth have already established or are in the process of developing their own national patent codes. In the meantime, such countries continue to use pre-independence procedures and facilities in providing patent protection within their respective territories. These countries, as well as those of the British Commonwealth that now have separate patent laws, are covered separately and alphabetically in this article. Generally, in such countries the only patent protection available is by means of the registered confirmation of a U.K. patent which must take place within 3 years of the original U.K. grant.

Uruguay—Invention and related improvement patents valid 15 years after grant; revalidation patents granted for unexpired term of foreign patents but not to exceed 15 years; must be applied for within 3 years of basic patent. Prior public knowledge anywhere prejudicial. Novelty examination. Opposition period 20 days. Compulsory licensing possible 3 years after grant, if not worked. Importation or nonusual working does not constitute working.

Venezuela—Invention and improvement patents issued for 5 or 10 years after grant at owner's request. Revalidation patents (based on prior foreign filing) co-terminous with basic patents issued up to 10 years. Patents of introduction available to non-owner of foreign patent; are granted for a 5-year term, but do not protect against imports. Publication in Venezuela or public knowledge anywhere prejudicial for invention and improvement patents. Prior public knowledge in Venezuela prejudicial for introduction and revalidation patents. Novelty examination for invention and improvement patents. Opposition period 60 days. Working for all patents must be effected 2 years after grant. Thereafter, working must continue for 2 consecutive

years for 10 year patent and 1 year for 5 year patent.

Exploitation in Venezuela in lieu of importation constitutes working for invention, improvement, revalidation patents. Introduction patent must be worked by local manufacturer. No compulsory licensing provision. Failure to meet working requirements results in revocation. Patent registration must be based on product. Not member of Paris Union but a foreign patent has priority right to obtain Venezuelan patent if he applies within 12 months of foreign grant.

Yemen—Yemen Arab Republic (previous Sultanate of Yemen) has no patent law. Customary rights of local newspaper may be recognized in local courts.

People's Democratic Republic of Yemen (Houthi Aden) grants patents only as confirmation of foreign patents, to be applied for within 3 years of foreign grant.

Yugoslavia—Patents valid 15 years after application. Publication or description anywhere, sale, use, or display in Yugoslavia prejudicial for novelty examination. Opposition period 3 months. Compulsory licensing possible 3 years after grant if not adequately worked, if working interrupted for any 3-year period, if needed to work another patent. Revocation possible 15 years after first compulsory license.

Zaire (Kinshasa)—Invention patents valid 10 years after application and importation patents co-terminous with basic foreign patents. Prior patent or publication anywhere (except for import patents) or public knowledge in the Zaire prejudicial. No novelty examination. No compulsory licensing or working provisions.

Zambia—Patent previously registered in old Rhodesia or Nyasaland in force in Zambia for remainder of unexpired term. Patents valid 10 years after application. Printed publication anywhere or public knowledge or use of invention in Zambia prejudicial for novelty examination. Opposition period 3 months. Advertisement of acceptance of patent specification. Compulsory licensing possible 3 months after grant. No grace period on patents relating to food or medicine if inadequately worked.

ANNEX A

Member Countries of the Industrial Property Unions as on January 1, 1975

1

International Union for the Protection of Industrial Property (Paris Union)*

founded by the Paris Convention (1883), revised at Brussels (1900), Washington (1911), The Hague (1925), London (1934), Lisbon (1958), and Stockholm (1967)

| Member Country ** | Class chosen | Starting-date of membership in the Union | Latest Act by which the Country is bound and date from which it is bound |
|---------------------------------------|--------------|--|--|
| Algeria ¹ | VI | March 1, 1966 | Lisbon: March 1, 1966 |
| Argentina ² | III | February 18, 1967 | Lisbon: February 18, 1967 |
| Australia ³ | III | October 10, 1925 | London: June 2, 1968 Stockholm: August 25, 1972 ⁴ (administration) †† |
| Austria | IV | January 1, 1909 | Stockholm: August 18, 1973 |
| Belgium | III | July 1, 1804 | Stockholm: February 12, 1975 |
| BRAZIL | III | JULY 7, 1884 | THE HAGUE: OCTOBER 26, 1925 STOCKHOLM: MARCH 21, 1975 ⁴ (administration) †† • |
| Bulgaria | V | June 13, 1921 | Stockholm: May 19 or 27, 1970 ⁴ (substance) † May 27, 1970 (administration) †† • |
| Cameroon ^{1,2} | VII | May 16, 1964 | Lisbon: May 16, 1964 |
| Canada ¹ | II | June 12, 1925 | London: July 30, 1951 Stockholm: July 7, 1970 ⁴ (administration) †† |
| Central African Republic ¹ | VI | November 19, 1963 | Lisbon: November 19, 1963 |
| Chad ¹ | VII | November 19, 1963 | Stockholm: September 26, 1970 |
| Congo ^{1,2} | VII | September 2, 1963 | Lisbon: September 2, 1963 |
| Cuba | VI | November 17, 1904 | Stockholm: April 8, 1975 • |
| Cyprus | VI | January 17, 1966 | Lisbon: January 17, 1966 |
| Czechoslovakia | IV | October 5, 1919 | Stockholm: December 29, 1970 • |
| Dahomey ¹ | VII | January 10, 1967 | Stockholm: March 12, 1975 |
| Denmark ² | IV | October 1, 1894 | Stockholm ³ : April 26 or May 19, 1970 ⁴ (substance) † April 26, 1970 (administration) †† |
| DOMINICAN REPUBLIC | VI | JULY 11, 1960 | THE HAGUE: APRIL 6, 1961 |
| Egypt | VI | July 1, 1951 | Stockholm: March 6, 1975 • |
| Finland | IV | September 20, 1921 | London: May 30, 1953 Stockholm: September 15, 1970 ⁴ (administration) †† |
| France ^{2,3} | I | July 7, 1884 | Lisbon: January 4, 1962 |
| Gabon ^{1,2} | VII | February 29, 1964 | Lisbon: February 29, 1964 |
| German Democratic Republic | III | May 1, 1963 ³ | Stockholm: April 26 or May 19, 1970 ⁴ (substance) † April 26, 1970 (administration) †† |
| Germany, Federal Republic of | I | May 1, 1963 ³ | Stockholm: September 19, 1970 |
| Greece ² | V | October 2, 1924 | London: November 27, 1953 |
| Haiti | VI | July 1, 1958 | Lisbon: January 4, 1962 |
| Holy See ² | VI | September 29, 1960 | London: September 29, 1960 |
| Hungary | V | January 1, 1909 | Stockholm: April 26 or May 19, 1970 ⁴ (substance) † April 26, 1970 (administration) †† • |
| Iceland | VI | May 5, 1962 | London: May 5, 1962 |
| Indonesia ¹ | IV | December 24, 1950 | London: December 24, 1950 |
| Iran | IV | December 16, 1959 | Lisbon: January 4, 1962 |
| Ireland | IV | December 4, 1925 | Stockholm: April 26 or May 19, 1970 ⁴ (substance) † April 26, 1970 (administration) †† |
| Israel ¹ | V | March 23, 1950 | Stockholm: April 26 or May 19, 1970 ⁴ (substance) † April 26, 1970 (administration) †† |
| Italy ² | I | July 7, 1884 | Lisbon: December 29, 1968 |
| Ivory Coast ¹ | VII | October 23, 1963 | Stockholm: May 4, 1974 |
| Japan ² | I | July 15, 1899 | Lisbon: August 21, 1965 |
| Jordan ¹ | VII | July 17, 1972 | Stockholm: July 17, 1972 |
| Kenya | VI | June 14, 1965 | Stockholm: October 26, 1971 |
| Lebanon | VI | September 1, 1924 | London: September 30, 1947 |

| Member Country ** | Class | Starting date of membership in the Union | Latest Act by which the Country is bound and date from which it is based |
|--|-------|--|---|
| Liechtenstein | VII | July 14, 1933 | Stockholm: May 25, 1972 |
| Luxembourg | VI | June 30, 1922 | Stockholm: March 24, 1975 |
| Madagascar ¹ | VII | December 21, 1963 | Stockholm: April 10, 1972 |
| Malawi ¹⁰ | VII | July 6, 1964 | Stockholm: June 25, 1970 |
| Malta ¹ | VII | October 20, 1967 | Lisbon: October 20, 1967 |
| Mauritania ^{1, 2} | VII | April 11, 1965 | Lisbon: April 11, 1965 |
| Mexico ² | IV | September 7, 1903 | Lisbon: May 10, 1964 |
| Monaco ² | VII | April 29, 1956 | Lisbon: January 4, 1962 |
| Morocco | VI | July 30, 1917 | Stockholm: August 6, 1971 |
| Netherlands ¹¹ | III | July 7, 1884 | Stockholm: January 10, 1975 |
| New Zealand ¹ | V | July 29, 1931 | London: July 14, 1946 |
| Niger ¹ | VII | July 5, 1964 | Stockholm: March 6, 1975 |
| Nigeria | VI | September 2, 1963 | Lisbon: September 2, 1963 |
| Norway | IV | July 1, 1805 | Stockholm: June 13, 1974 |
| Philippines | VI | September 27, 1965 | Lisbon: September 27, 1965 |
| Poland | III | November 10, 1919 | Stockholm: March 24, 1975 * |
| Portugal ^{2, 12} | IV | July 7, 1884 | London: November 7, 1949 |
| Republic of Viet-Nam ¹ | VI | December 8, 1956 | London: December 8, 1956 |
| Romania | IV | October 6, 1920 | Stockholm: April 26 or May 19, 1970 ² (substance)† April 26, 1970 (administration) †† * |
| San Marino | VI | March 4, 1960 | London: March 4, 1960 |
| Senegal ¹ | VII | December 21, 1963 | Stockholm: April 26 or May 19, 1970 ² (substance)† April 26, 1970 (administration) †† |
| South Africa | IV | December 1, 1947 | Stockholm: March 24, 1975 * |
| Southern Rhodesia ¹⁰ | VI | April 6, 1965 | Lisbon: April 6, 1965 |
| Soviet Union | I | July 1, 1945 | Stockholm: April 26 or May 19, 1970 ² (substance)† April 26, 1970 (administration) †† * |
| Spain | IV | July 7, 1884 | Stockholm: April 14, 1972 |
| Sri Lanka ¹ | VI | December 29, 1952 | London: December 29, 1952 |
| Sweden | III | July 1, 1815 | Stockholm: October 9, 1970 (substance) † April 26, 1970 (administration) †† |
| Switzerland | III | July 7, 1884 | Stockholm: April 26 or May 19, 1970 ² (substance)† April 26, 1970 (administration) †† |
| Syrian Arab Republic ² | VII | September 1, 1924 | London: September 30, 1947 |
| Togo ^{1, 2} | VII | September 10, 1967 | Lisbon: September 10, 1967 |
| Trinidad and Tobago ¹ | VI | August 1, 1964 | Lisbon: August 1, 1964 |
| Tunisia ¹ | VI | July 7, 1884 | London: October 4, 1942 |
| Turkey ² | VI | October 10, 1925 | London: June 27, 1967 |
| Uganda | VII | June 14, 1965 | Stockholm: October 20, 1973 |
| United Kingdom ¹⁰ | I | July 7, 1884 | Stockholm: April 26 or May 19, 1970 ² (substance)† April 26, 1970 (administration) †† |
| United Republic of Tanzania ¹ | VI | June 16, 1963 | Lisbon: June 16, 1963 |
| United States of America ¹¹ | I | May 30, 1807 | Stockholm: August 25, 1973 (substance) † September 5, 1970 (administration) †† |
| Upper Volta ^{1, 2} | VII | November 19, 1963 | Lisbon: November 19, 1963 |
| Uruguay ² | VI | March 18, 1967 | Lisbon: March 18, 1967 |
| Yugoslavia | IV | February 26, 1921 | Stockholm: October 16, 1973 |
| Zaire | VI | January 31, 1975 | Stockholm: January 31, 1975 |
| Zambia ¹⁰ | VI | April 6, 1965 | Lisbon: April 6, 1965 |

(Total: 81 countries)

* This list includes all the entries to which the Convention has been declared applicable. It does not imply any expression of opinion as to the legal status of any country or territory or of its authorities.

**** Explanation of type:**

Heavy type: countries which have accepted the Stockholm Act (1967) in its entirety.

Italic: countries which have accepted the London Act (1958) and countries which have accepted the Lisbon Act and the Stockholm Act (1967) except Articles 1 to 12 of the latter.

Ordinary type: countries which have accepted the London Act (1958) and countries which have accepted the London Act and the Stockholm Act (1967) except Articles 1 to 12 of the latter.

CAPITAL, LETTERS: country which has accepted the Hague Act (1952) and country which has accepted the Hague Act and the Stockholm Act (1967) except Articles 1 to 12 of the latter.

† "Substance" means Articles 1 to 12 and, unless the date under "administration" is earlier, Articles 18 to 30.

†† "Administration" means Articles 18 to 17 and, unless the date under "substance" is earlier or where there is no entry "substance," Articles 18 to 30.

* With the declaration provided for in Article 28(2).

¹ The Convention was previously applied, as from the dates indicated, on the territories of what are now the following countries: Australia (August 5, 1967), Canada (September 1, 1923), Indonesia (October 1, 1958), Israel (September 12, 1955), Jordan (On Jordan only, September 12, 1955), New Zealand (September 7, 1961), Sri Lanka (June 18, 1965), Trinidad and Tobago (May 14, 1968), U.R. of Tanzania (Tanganyika only, January 1, 1968). The Convention was previously applied, from various dates, on the territories of what are now the following countries: Algeria, Cameroon, Central African Republic, Chad, Congo, Gabon, Gambia, Ivory Coast, Madagascar, Mauritania, Niger, Republic of Viet-Nam, Senegal, Togo, Upper Volta.

² This country has deposited the notification provided for under Article 28(2) of the Stockholm Act (1967). It may then exercise the rights provided for in Articles 13 to 17 of the Act as if it were bound by those articles. It is considered a member of the Assembly. These two privileges expire on August 26, 1975.

³ Australia extended the application of the Hague Act (1952) to New Guinea and Papua with effect from February 12, 1968, and to Norfolk Island and Niue with effect from July 29, 1968. Australia extended the application of the London Act (1958) to New Guinea, Norfolk Island and Papua with effect from February 5, 1968.

⁴ Acceptance including Articles 1 to 12.

⁵ These are the alternative dates of entry into force which the Director General of WIPO communicated to the States concerned.

⁶ Including the Faras Islands.

⁷ Denmark extended the application of the Stockholm Act (1967) to the Faeroe Islands with effect from August 6, 1971.

⁸ Including the Departments of Guadeloupe, Guyane, Martinique and Réunion and all Overseas Territories.

⁹ Date on which the accession of the German Empire took effect.

¹⁰ The Federation of Rhodesia and Nyasaland, a non-independent member of the Commonwealth, acceded to the London Act (1958) as from April 1, 1968. The Convention continued to be applied to Malawi (Nyasaland) and to Zambia (Northern Rhodesia) as a result of declarations of continuity and instruments of accession deposited with the Secretariat of the London Act (1958). Through the machinery of the London Act, a declaration of continuity and an instrument of accession were deposited by the Government of Northern Rhodesia with the Secretariat of the London Act, which on March 6, 1965, notified this deposit and that the accession would take effect on April 6, 1965. This notification gave rise to a communication of March 30, 1965, from the Government of Cameroon. By its communication of December 6, 1965, the Government of the United Kingdom requested the International Bureau to transmit in the future all communications intended for the Rhodesian authorities to the Government of the United Kingdom.

¹¹ The Netherlands extended to Curaçao and Surinam the application of the Convention with effect from July 1, 1968, and of the London Act (1958) with effect from August 5, 1968. The instrument of ratification of the Stockholm Act (1967) was deposited for the Kingdom in Europe, Surinam and the Netherlands Antilles.

¹² Including the Azores and Madeira.

¹³ The United Kingdom extended the application of the London Act (1958) to the Bahamas with effect from October 28, 1967.

¹⁴ The United States of America extended the application of the London Act (1958) to American Samoa, Guam, Puerto Rico and Virgin Islands with effect from July 7, 1961, and has extended the application of the Stockholm Act (1967) to all territories and possessions of the United States, including the Commonwealth of Puerto Rico, as from August 25, 1973.

WORLD TRADEMARK LAWS REVIEWED

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U.S. exporters generally regard adequate trademark protection abroad for their goods and services as essential to development of foreign markets. A trademark provides important identification for a firm's products and services in foreign markets as it does in the United States and also serves as the focal point around which that firm can develop its advertising and sales promotion campaigns. The mark also symbolizes to the buying public the goodwill, quality standards and reputation inherent in the firm's products and services.

The United States adheres to several treaties under which exporters and other businessmen are entitled to receive, in about 95 countries, the same treatment under trademark laws as those countries extend to their own nationals (national treatment). However, the United States is not a party to any agreement whereby a U.S. trademark registration is automatically recognized and protected in a foreign country or vice versa. While U.S. nationals have rights to apply for and receive trademark registrations in countries with which the United States has treaty arrangements, they must, nevertheless, proceed under the laws of each country to obtain these rights.

The basic multilateral agreement on trademark rights to which the United States is a party is the Paris Union International Convention for the Protection of Industrial Property, to which about 80 other countries have also adhered (see Annex A on page 41). The United States also adheres to the General International Convention for Trademark and Commercial Protection of 1929, to which nine other Western Hemisphere countries are party (see box on page 54).

All of these conventions embody the national treatment principle, as well as certain special advantages for the U.S. businessman seeking trademark protection abroad. Such rights include a 6 months "right of priority" which is created by filing a first trademark application in the United States or another member country, followed by the filing of a corresponding application in any other convention country within the next 6 months. The effect is to give the second-filed case the same status as if filed on the same date as the first.

Also, under a Paris Union Convention Revision adopted in 1958, a U.S. national may register his trademark in any country adhering to that Revision (Art. 52), if it is otherwise a proper application, out the need of a prior registration of the same in the United States. The new revision also

strengthens protection for marks for services, as well as those for goods.

The United States has also concluded a number of bilateral arrangements with members of the above Conventions, and other countries, under which U.S. citizens receive national treatment and other protection against discriminatory practices in acquiring and maintaining trademark rights.

There are several international agreements in effect under which trademark applications can be filed with a central source for protection in a number of countries. The United States is not a party to such agreements. However, it is desirable for a firm seeking trademark protection abroad to have its attorney determine the circumstances under which a U.S. firm may use these central filing procedures. Regionally, such agreements currently in effect are the African and Malagasy Industrial Property Agreement (Union) and the Benelux Trademark Convention (see summaries).

The Madrid Agreement Concerning The International Registration of Trademarks, which is organized on an international basis as distinct from a regional basis, is adhered to by 23 countries. Under its provisions, a trademark first registered nationally in a member country can be applied for by the owner in the other 22 countries through a single filing with the World Intellectual Property Organization (WIPO) Central Bureau in Geneva. The Bureau, upon receipt of the application, distributes it to the other member countries for processing and, if qualified, registration by each in accordance with its own laws. Countries have a right to refuse protection within 1 year from the date of publication of the international mark. Under the original Agreement text, such registrations were always dependent on the prior home registration; if the latter was ever cancelled, those in the other countries became invalid. Under a text adopted at Nice in 1957, dependence of subsequent registrations on the prior home registration is limited to a period of 5 years. After that time, such marks may no longer be terminated by a single action directed against the prior home mark.

In June 1973, the U.S. participated in a negotiating conference which adopted a new Trademark Registration Treaty (TRT), providing for simplified central filing procedures while containing some basic procedural differences from the Madrid Agreement. The TRT provides that for a single fee, a trademark application can be filed with the WIPO Central Bureau in Geneva.

Unlike filings under the Madrid Agreement, the applicant will not need a prior home registration. The filing of a TRT application will have the effect of a filing in each country designated thereon by the applicant. The mark, after filing, will then be published and circulated by WIPO to member countries whereupon each country designated by the applicant has 15 months within which to refuse registration under its national law. If no timely refusal is indicated by a designated member country, the mark is deemed registered there. No member country will be able to refuse a mark on grounds of non-use, nor cancel it on such grounds for at least 3 years after its registration. The TRT will come into effect when five countries have ratified it, and the U.S. will have to amend its Trademark Law so as to provide for registration of marks prior to use, if it desires to adhere.

Prompt registration of trademarks is advantageous for U.S. exporters in those countries where they intend to do business and where their products may be marketed by others. In most countries, trademark applicants are not required to present evidence of use of a mark prior to registration. This is different from the U.S. system where a mark must be used in order to acquire legally recognized ownership rights.

In many countries, the first person to apply for and acquire registration of a mark is recognized as its rightful owner. In the British Commonwealth countries and certain others, the applicant must either show use, or specify intended use, in which case the mark must be used within a certain period after registration.

Generally, in civil law countries such as France, the first applicant is entitled to registration and protection of a mark regardless of whether it may have been previously used by another party. In these countries which have no prior use requirements, registration of marks owned in the United States are sometimes acquired by persons without authority of the U.S. owner. Such persons then use those registrations to prevent the owners of the trademark rights in the United States from importing their goods, or to compel them to license the marks to the registrants, or to employ the latter as local distributors in order to do business in their countries.

Unlike patents, trademark registrations can be renewed indefinitely. Their initial duration and renewal periods vary from country to country. In countries with laws patterned on the British system, it is usually 7 years, renewable for 7 to 14 years thereafter. In most other countries, it is 10 to 20 years. Most countries require a trademark to be used within a specified period after its registration, otherwise it is subject to cancellation.

Various countries, primarily those in the British Commonwealth, have a "Registered User" requirement in their trademark laws under which certain details of a trademark license must be recorded with the government. This recordation requirement enables licensor enforcement over a licensee's trademarked products, to ensure that they maintain the same specifications and quality standards as those of the licensor. In other countries, the license agreement itself must be registered with the government to be enforceable.

The most widely used trademark classification system is that currently established under the Arrangement of Nice Concerning the International Classification of Goods and Services to Which Trade Marks Apply, adopted June 15, 1957. It consists of 34 product and 8 service classes. The system is used by the United States and about 60 other countries.

For more detailed data on step-by-step procedures to be followed in protecting their trademark rights abroad, exporters should seek advice and assistance from competent legal counsel relative to the countries where they desire to do business.

Summaries of trademark laws throughout the world follow:

Afghanistan—Registrations valid 10 years from application filing date, renewable for similar periods. First applicant entitled to registration. Prior user may contest registration within 3 years. After 3 years, no claims against valid registration heard by Commercial Court. No use requirement unless ordered by government.

Africa and Malagasy Union—Members of Union and parties to Accord for the Creation of an African and Malagasy Industrial Property Office (OAMPI) are Cameroon, Central African Republic, Chad, Congo (Brazzaville), Dahomey, Gabon, Ivory Coast, Malagasy Republic, Mauritania, Niger, Senegal, Togo and Upper Volta. Accord applies to trademarks as well as patents and industrial designs; establishes common system for offering protection in member countries through filing with Central Office, Yaounde, Cameroon.

Trademark application filed with, and registration granted by, Central Office has protection of national law in each member country, valid for 20 years from date of deposit (filing date). Renewable for indefinite periods. No examination or opposition. Registration incontestable on prior user grounds after 3 years. Mark must be registered to be recognized as owner's property right in member countries. Marks registered by Central Office may be annulled by Civil Tribunals of member countries in their territories, if such marks found to be contrary to public order, lacking distinctiveness, or liable to public deception. Transfers and assignments must be entered with the special Central Office Register to be enforceable.

Albania—Registrations valid 10 years from application date, renewable like periods. First applicant, as user, entitled registration. Applications examined, no opposition provisions. Prior home registration required for foreign marks to be accepted for registration. Duration of foreign mark registration cannot exceed prior home registration.

Algeria—Registrations valid 10 years from application filing date, renewable for like periods. Registrations in force July 3, 1962 valid to 15 years, provided registrant made "continuous use" request before Dec. 24, 1966. First applicant entitled to registration. No examination or opposition proceedings. Immediate publication after registration. Mark must be used within 1 year of registration. Requests for cancellation on

grounds of confusion or conflict with another's mark permissible within 5 years of contested registration's date.

Argentina—Registrations valid 10 years from registration date; renewable for similar periods. First applicant is entitled to registration. Applications examined, published for opposition, which must be made within 30 days. Cancellation action on contention registration contrary to law must be brought within 10 years of registration date; no time limit for bringing cancellation action on prior rights grounds. No use requirement except as ordered by government.

Australia—Registrations valid 7 years from application filing date; renewable 14 year periods. First applicant, as user or intended user, entitled registration. Trademark registrable Part A, must distinguish applicant's goods from others. After 7 years, mark becomes incontestable on most grounds. Trademark registrable Part B need not be distinctive but capable, in use, of becoming distinctive. Part B registration has no incontestability rights after 7 years validity, as does Part A. Certification marks registrable Part C. Defensive marks, if already registered Part A, registrable Part D. Applications examined, published opposition, 3 months. Mark can be cancelled upon prior registered without intent to use or, if no bona fide use within 3 years after registration, "Registered User" provisions. Australian Trade Marks Act extends to Norfolk Island, Papua and New Guinea territories.

Austria—Registrations valid 10 years from application date, renewable like periods. First applicant entitled registration. Applications examined, no opposition provisions. Prior user claimant can seek cancellation within 5 years from registration date. No use requirement.

Bahrain—Trademark registrable (1) if registered in United Kingdom or (2) if to be used as local trademark in manufacture or sale goods in Persian Gulf States of Bahrain, Kuwait, Qatar, Muscat and Oman, and Trucial States. Registrations based on corresponding U.K. registrations are for 5 years from registration date in Bahrain. Local trademark registration duration is 7 years from application filing date, renewable for 15-year periods. Foreign trademarks not registered in United Kingdom are not registrable.

Barbados—Registrations valid 7 years, renewable for 14 years. Person claiming ownership of mark, as first user or intended user, may apply for registration. One month opposition period. No use requirement.

Bangladesh (Formerly East Pakistan)—Trademark registered in Pakistan before March 26, 1971, invalidated Bangladesh. Revalidation such marks obtainable only if applied for before September 13, 1974. Revalidations retroactive to registration date in Pakistan for period originally granted under Pakistan law. Applications pending in Pakistan March 26, 1971, not valid Bangladesh. New applications must be filed in Chittagong. Text of Pakistan law has been adopted.

Belgium—See Benelux.

Benelux—Benelux Trademarks Treaty and Uniform Trademark Law, effective January 1, 1971. Establishes Benelux Trademarks Office at The Hague covering Belgium, Netherlands, and Luxembourg. Registration effective all three countries only on basis single application. Not possible file for, or secure, registration any separate country. Registrations valid 10 years from application date, renewable like periods. First application entitled registration. No examination or opposition provisions. Registration effected, if application meets formal requirements. Registrations must be used within 3 years of issue or during uninterrupted 5-year period.

Bolivia—Registrations valid 10 years from registration date, renewable for similar periods. First applicant entitled to registration. Applications published for opposition within 30 days. Right of ownership becomes conclusive after registration is valid for 18 months. No use requirement, except for pharmaceutical and chemical products.

Botswana—Registration possible on basis of prior registration in South Africa or United Kingdom; valid for unexpired term of prior registration. Renewable with home registration. No examination, opposition.

Brazil—Registrations valid 10 years from issue date, renewable like periods. First applicant entitled to registration. Applications examined, published 60 days opposition. Mark must be used within 2 years and not discontinued for more than 2 consecutive years. Mark registered more than 5 years immune from amendment action. Mark covering pharmaceutical product must be licensed by Brazilian Health Department before registration.

Bulgaria—Registration valid 10 years from application date, renewable for similar periods. First applicant entitled to registration and exclusive use of mark. No opposition or examination. Prior user may contest application, if he files own trademark application within 3 months of objection date. Mark not used for 5 years can be cancelled.

Burma—No trademark law. Possible to acquire legally recognized ownership as first user under Common Law. Can record Declaration of Ownership in Office of Registrar of Deeds, Rangoon, and publish caution notice in newspapers.

Burundi—Registrations granted for unlimited duration. Person applying as first public user receives registration. No examination or opposition. Registration presumes valid property right unless proof to contrary submitted to authorities.

Cambodia—See France

Canada—Marks registered under Unfair Competition Act of 1932, renewable every 15 years. Those registered under Trade Mark and Design Act of July 1, 1954, are valid 15 years from registration date, and are renewable for like periods. Person first to use mark or make mark known in Canada, or who previously registered and used mark in Paris Union country, or who intends to use

mark in Canada is entitled to registration. Applications examined for proper form and content, published for opposition within 1 month. If no successful opposition, application allowed. Mark not used 3 consecutive years can be cancelled. "Registered User" provisions.

Ceylon—See Sri Lanka

Chile—Registrations valid 10 years from registration date; renewable for similar periods. First applicant entitled to registration, if fast to use mark continuously. Opposition period is 30 days after publication. Two years after registration mark generally becomes uncontested. No use requirement.

China (Taiwan)—Registration valid 10 years from registration date, renewable like periods. First applicant entitled to registration. Applications examined, published for 3-month opposition period. Registrations must be used within 1 year of registration and use not discontinued for 2 years. Cancellation action can only be sought within 3 years of registration.

China (People's Republic of)—Registrations to foreigners issued for term fixed in individual cases by Central Industrial and Commercial Administration. Foreign nationals may apply only if reciprocal trademark protection agreement exists between country and PRC. No such agreement with United States. Possible for U.S. firm to assign mark to subsidiary in country having such agreement (Canada, United Kingdom, Sweden, Australia, Switzerland, Denmark, Finland, and Italy) and have subsidiary apply. First applicant entitled to registration. No foreign language usable for trademarks in domestic trade but, marks with foreign language usable for export products. Applications examined, no opposition procedure. Registered mark must be used within 1 year.

Colombia—Registrations valid 10 years from registration date, renewable for 5-year periods. First applicant entitled to registration. Prior use can serve as rightful ownership grounds for contesting another's application or registration of similar mark. Applications examined, published for opposition within 30 days. Registration subject to cancellation, if not used within 5 years.

Congo (Kinshasa)—See Zaire.

Costa Rica—Registrations valid 15 years from registration date, renewable for similar periods. First applicant entitled to registration. No proprietary rights in absence of registration. Applications examined, published 2 months opposition. No use requirement except for marks registered for chemical or pharmaceutical products. No prior home registration requirement for foreign applicants who have business establishments in own country.

Cyprus—Registrations valid 7 years from application date, renewable for 14-year periods. Person claiming proprietorship of mark may apply for its registration. First user rights recognized. Applications examined, published opposition 2 months. Mark registered Part A

of Register and not contested for 7 years cannot be challenged except upon proof it was obtained by fraud or deception. Mark not used 5 years may be cancelled, unless non-use was due to special circumstances.

Czechoslovakia—Registrations valid 10 years from application filing date, renewable for similar periods. First applicant entitled to registration. Another party proving prior use in Czechoslovakia for same class of goods may apply for cancellation within 3 years of registration date. Applications examined. No opposition or use requirement.

Denmark—Registrations valid 10 years from registration date, renewable for similar periods. First applicant entitled to registration. Party claiming prior use mark after registration can, within 5 years of registration date, secure cancellation from Courts upon proof of such use. Examination provisions, opposition period 2 months. No use requirement.

Dominican Republic—Registrations granted for 5, 10, 15, or 20 years from registration date, at applicant's option; renewable for similar periods. First applicant entitled to registration. Examination, but no opposition provisions. When trademark applicant finds previously registered similar mark, first registration can be cancelled if used less than one quarter time during which newly-applied-for mark has been used by applicant. Cancellation of registration on grounds of similarity to mark previously registered must be sought within 3 years after registration of contested mark. Registered mark must be used within 1 year of registration date.

Ecuador—Registrations valid 20 years from application date, renewable for 15-year periods. First applicant entitled to registration. Examination procedure; application published for opposition four times, with 10-day or more intervals between each publication. Prior user claimant must seek cancellation within 5 years of registration date. No use requirement.

El Salvador—Registrations valid for 20 years, renewable for similar periods. First applicant is entitled to registration, prior user may contest registration up to 5 years. Applications examined, published for opposition, which must occur within 90 days. If mark not used, or use discontinued within year after registration, it can be cancelled. Foreign-owned mark used outside country meets use requirement. Customs authorities can prohibit import goods bearing infringing marks.

Ethiopia—No trademark law. May be possible to secure some protection by publishing cautionary notice in newspaper and filing copy of it and home registration with Ministry of Commerce in Addis Ababa.

Finland—Registration valid 10 years from registration date, renewable for similar periods. First applicant entitled to registration. Examination provisions; opposition period 2 months after publication. Contestability on prior use grounds permissible within 5 years of registration date. Mark not used 5 years can be cancelled.

France—Present trademark law effective Aug. 1, 1965. Registrations valid for 10 years from application filing date. As transitory measure, all registrations effected before Aug. 1, 1965, enjoy 15-year protection from application filing date. First applicant obtains registration, exclusive ownership of mark even though previously used by others. Only exception, owner of mark already very well known in France as belonging to him rather than registrant can sue registrant for cancellation within 5 years after registrant's application date. Examination for registrability, but not prior marks, no opposition proceedings. Mark not used for 5 consecutive years subject to cancellation.

Former French Colonies, now independent countries, of Cambodia, Laos, and Mali continue to apply earlier French Trademark Law (1857) to their jurisdictions. Applications should be filed directly in these countries. In Guinea, mark must first be registered in France to be registered and protected there. French 1965 law applies to Martinique, Guadeloupe, French Guiana, St. Pierre, Miquelon, and French Polynesian Islands.

Gambia—Marks registered in United Kingdom are registrable on a co-terminous basis. Independent applications also permissible. Registrations valid 14 years, renewable for similar periods. Examination provisions, 3-month opposition period.

Germany, Federal Republic of—Registrations valid for 10 years from application filing date, renewable for similar periods. First applicant is entitled to registration. Registration, not prior use, confers proprietary rights. Only exception is recognition of marks in notorious use as belonging to original user. Examination procedures for registrability, not prior marks. Applications published for three months' opposition. Mark must be used within 5 years of registration date, otherwise subject to cancellation.

Germany, Democratic Republic of—Registrations valid 10 years from application date, renewable like periods. First applicant entitled to registration. Prior user, upon proof, can have registration cancelled. Applications examined, no provision for opposition. No use requirement, but, mark can be cancelled if business in which used expires. No time limitation for cancellation action.

Ghana—Registrations valid 7 years from application filing date, renewable for 14 year periods. Register consists of Part A (distinctive marks) and Part B (marks capable of becoming distinctive). First person applying as user or intended user of mark is entitled to registration. Applications examined, published for opposition, which must occur within 2 months. Registration cancelled if not used 5 years. "Registered user" provision.

Greece—Registrations valid for 10 years from application filing date, renewable for similar periods. First applicant is entitled to registration. Examination procedures, opposition period 6 months. Prior user has rights if he proves mark is sufficiently known in his business in Greece; has 3 years from registration date to

seek cancellation but term begins only after first sale by registrant. Registration can be cancelled if registrant fails to place on market goods bearing the mark within 3 years of registration date (1 year for periodicals and 4 years for pharmaceutical marks) or if registrant has discontinued business or not offered products bearing mark for sale for 2 years (1 year for periodicals marks).

Guatemala—Registrations valid 10 years from registration date, renewable for similar periods. First applicant entitled to registration. Search procedures exist. Applications published three times for opposition. Opposition must be filed within 40 days of first publication. No compulsory use, except as ordered by the government in special cases. Prior home registration requirement for U.S. applicants.

Guinea—See France

Guyana (formerly British Guiana)—Registrations valid 7 years from application filing date, renewable for similar periods. Person applying as first user is entitled registration. Owner of U.K. registration may also apply for registration on this basis. One month opposition period. Registered mark not used 5 years can be cancelled. Register consists of Part A (for distinctive marks), B (for marks capable of becoming distinctive) and C (registrations based on those in the United Kingdom). "Registered User" provisions.

Haiti—Registrations valid 10 years from registration date, renewable for similar periods. First applicant is entitled to registration. Prior user can seek cancellation within 5 years of registration date. Applications published for opposition, which must be made within 2 months. For opposition to be accepted opposer must also file application for contested mark, if not already registered. Mark can be cancelled if not used within 5 years.

Honduras—Registrations valid 10 years from registration date, renewable for similar periods. First applicant is entitled to registration. Applications published three times, at 10-day intervals, for opposition, which must be filed within 15 days of last publication. Mark must be used for more than a year after registration, otherwise considered abandoned unless revalidated upon fee payment.

Hong Kong—See United Kingdom.

Hungary—Registration valid 10 years from application filing date, renewable for similar periods. First applicant is entitled to registration. Prior user, upon proof, may apply for cancellation. Registered mark must be used within 5 years, otherwise can be cancelled. Applications examined. No opposition provisions.

Iceland—Registrations valid 10 years from registration date, renewable for similar periods. First applicant is entitled to registration. Prior user may contest registration within 5 years of registration date. Examination procedures. No publication for opposition; anyone desiring to oppose application must request such right from Registrar. No compulsory use.

India—Registrations valid 7 years from application filing date, renewable for similar periods. First applicant who claims ownership through use is entitled to registration. Under certain conditions proven prior user may also have right to register mark at same time. Register divided into Part A (distinctive marks) and Part B (marks capable of becoming distinctive). Certification and defensive marks registrable Part A. Applications examined, published 3 months' opposition. Any mark, except defensive mark, can be cancelled if not used continuously for 5 years, unless non-use was due to circumstances over which registrant had no control. "Registered User" provisions.

Indonesia—Registrations valid 10 years from registration date, renewable for similar periods. Registrations and renewals made before Nov. 11, 1961, are valid 20 years. Exclusive rights to mark are based on its first use in Indonesia. First applicant considered first user. To preserve first user status, registrant must use mark within 6 months of registration date. Examination, but no opposition provisions. Adverse decisions on application appealable to District Court, Djakarta. Cancellation petitions also can be filed with that Court, but within 9 months of registration's publication date. Mark must be used within 3 years.

Iran—Registrations valid 10 years from application filing date, renewable for similar periods. First applicant is entitled to registration. Prior user claimant must contest it within 3 years. Applications made public for inspection, opposition; also examined. Allowed applications published for opposition within 30 days. Registration, if not used by registrant in Iran or abroad within 3 years of effective date, can be cancelled.

Iraq—Registrations valid 15 years from application filing date, renewable for similar periods. Registered mark becomes incontestable after 5 years. Applicant, as user or intended user, is entitled to registration. Applications given preliminary search; published opposition (three consecutive times); opposition must be filed within 90 days of last publication date. Registration not used for 2 consecutive years can be cancelled unless owner proves non-use was due to circumstances over which he had no control.

Ireland—Registrations valid 7 years from application filing date, renewable for 14-year periods. First applicant as user, or intended user, is entitled to registration. Marks are registered Part A (distinctive) or Part B (capable of becoming distinctive). Certification marks registrable Part A. Part A registration is incontestable after 7 years except on grounds that the mark was acquired through fraud, consists of immoral or deceptive subject matter. Examination procedures; 1 month opposition period.

Israel—Registration valid 7 years from application filing date, renewable for 14-year periods. First applicant or prior user is entitled to registration, whichever is earlier. Registration is contestable on prior user grounds within 5 years. Examination procedures, opposition period, 3 months. Mark subject to cancellation, if not used within 2 years. "Register user" provision.

Italy—Registrations valid 20 years from application filing date, renewable for similar periods. First applicant is entitled to registration. Prior user has contestability rights for 5 years. To secure cancellation of registration, he must show that his prior use of mark was sufficient for it to be publicly known before contested mark's registration date. No examination or opposition provisions. Mark must be used within 3 years of registration date, must also be used continuously for 3 years.

Jamaica—Registrations valid 7 years from application filing date, renewable for 14-year periods. Register divided into Part A (distinctive) and Part B (capable of becoming distinctive). Part A registrations are conclusive as to validity after 7 years. First applicant as user, or intended user, is entitled to registration. Examination procedures, one month opposition period. Registration cancellable if unused for five years. "Registered User" provisions.

Japan—Registrations are valid 10 years from registration date, renewable for similar periods. First applicant is entitled to registration. Another person widely using mark before first application filed may be permitted to continue such use even after registered by someone else. Examination procedure, 2-month opposition period. Registration cancellable if not used for 3 consecutive years (unless there was good reason for such non-use), or if it is deemed similar to someone else's "well known" mark, or if used in a deceptive manner; or if otherwise registered contrary to law. Incontestable after 5 years except on grounds of misleading use or deception.

Jordan—Registration valid 7 years from application filing date, renewable for 14-year periods. First applicant as user, or intended user, is entitled to registration. Examination procedures. Opposition period 3 months. Registration can be canceled on grounds of non-use or no bona fide intention to use during 2 years preceding cancellation petition, unless non-use was due to conditions over which registrant had no control. Mark is incontestable 5 years after registration date. Unless mark is registered, no infringement damages can be recovered.

Kenya—Registration valid 7 years from application date, renewable for 14-year periods. Register divided into Part A (distinctive) and Part B (capable of becoming distinctive). First applicant as user or intended user is entitled to registration. Examination procedures. Opposition period 60 days. Registration cancellable if mark not used in 5 years. "Registered user" provisions.

Korea—Registration valid 10 years from issue date, renewable like period. First applicant entitled to registration. Applications examined, published 30 days for opposition. Registration must be used within 1 year after issue. Cancellation action limited to 5 years on grounds mark registered improperly under law's criteria.

Kuwait—Registrations valid 10 years from application filing date, renewable for the same period. First applicant is entitled to registration. Registration incontestable after five years. Accepted applications published for opposition in three consecutive issues of the *Official*

Gazette. Oppositions must be filed within 30 days of last publication. Mark can be cancelled if not used for 5 consecutive years.

Laos—See France

Lebanon—Registration valid for 15, 30, 45, or 60 years, at applicant's option. Renewable for similar periods. First applicant is entitled to registration. Prior user may contest registration up to 5 years after registration date. Non-registered who, 5 years after another's registration of mark, can prove first use thereof can continue use of his mark for up to 10 years from existing registration date. Examination procedures, but no opposition or compulsory use provisions.

Lesotho—Registration possible on basis of prior registration in South Africa or the United Kingdom, valid for unexpired term of prior registration. Renewable with home registration. No examination or opposition.

Liberia—Registrations valid for 15 years, renewable for similar periods. Infringement action not possible if plaintiff's mark unregistered. First applicant is entitled to registration, but must prove mark not in use by anyone else. Examination procedures, but no opposition provisions. Mark must be used within 2 years of registration date; otherwise cancellable. Also cancellable if owner neglects legal action against infringer or adopts new similar mark.

Libya—Registrations valid 10 years after application filing date, renewable for similar periods. First applicant is entitled to registration. Examination procedures, opposition period 3 months. Registration incontestable after 5 years. Cancellable if not used for 5 consecutive years without justification.

Liechtenstein—Registrations valid 20 years from application filing date, renewable for similar periods. First applicant is entitled to registration. No examination or opposition procedures. Prior user rights recognized.

Luxembourg—See Benelux

Malawi (Nyasaland)—Marks registered with the former Federation of Rhodesia and Nyasaland before January 1, 1964, are effective in Malawi for their original term. Certificate of Registration for such marks should be secured and entered in the Malawi Register Federation separated in 1963 into Malawi, Zambia, and Southern Rhodesia. Marks registrable in Malawi 7 years from application filing date, renewable for 14 years. First applicant, as user or intended user is entitled to registration. Register divided into Part A (distinctive), Part B (capable of becoming distinctive), C (certification) and D (defensive). Examination procedures. Opposition period is 2 months. Registration cancellable if not used 5 years. Part A registration remaining valid for 7 years is incontestable on prior user grounds. "Registered User" provisions.

Malaysia—New Malaysian nation established Sept. 16, 1963, consists of former Malaya, Sarawak, and Sabah (North Borneo). No central trademark law yet

adopted; each separate State continues to enforce the law in effect in its area before that date. Office of Registrar of Trademarks and Patents for Malaya, at Kuala Lumpur. Registrar of Trademarks and Patents in Singapore reportedly serving as Registrar for Sabah. Sarawak Registrar is at Kuching. Registrations for each area are valid 7 years from application filing date, renewable for 14-year periods. Registrars in all areas divided into Part A (distinctive) and Part B (capable of becoming distinctive). Associated, defensive and certification marks are registrable. First applicant as user is entitled to registration. Examination procedure, opposition period 1 month after publication. Mark not used for 5 years cancellable. "Registered User" provisions.

Mal—French Law temporarily applicable but applications for registrations may be filed at Registry of Tribunal of First Instance at Bamako. Marks registered in France before independence date (Apr. 4, 1960) should be re-registered. Registrations valid 15 years.

Malta—Registrations valid 14 years from application filing date, renewable for similar periods. Applicant as first user is entitled to registration. Examination procedures, opposition period 2 months from publication. No use requirement.

Mauritius—Marks registrable on the basis of prior U.K. registration or independently. Independent registrations valid 7 years from registration date, renewable for 14-year periods. U.K.-based registration valid and renewable for term of basic registration. First user entitled to registration. No use requirement.

Mexico—Registrations valid 10 years from application filing date, renewable for similar periods. First applicant can acquire registration subject to rights of prior users and of those foreigners entitled to 6 months' priority rights based on filings abroad. Prior user in Mexico can seek cancellation action within 3 years of contested mark's registration date. Examination but, no opposition provisions. "Registered User" provisions.

Monaco—Registrations valid 15 years from application filing date, renewable for similar periods. Exclusive right in trademark secured by registration. No substantive examination or opposition procedures, or compulsory use. Prior user may contest registration within 5 years if mark being effectively used by him.

Morocco (Formerly French Zone)—Former French and Spanish Zones of Morocco, and Tangier Zone, formed Kingdom of Morocco in 1956. No unified trademark legislation yet adopted. Protection in ex-French Zone should be sought through Office Moroccan, Casablanca. For information on former Spanish and Tangier Zones, see separate summaries. Registrations issued by Office Moroccan are valid 20 years from registration date and renewable for similar periods. First applicant is entitled to registration. Prior user may contest registration up to 5 years. No substantive examination or opposition proceedings. Registered mark must be used in Morocco or abroad, otherwise can be cancelled.

Morocco (Formerly Spanish Zone)—Registrations in Spain filed before 1956 remain valid for original durations. No facilities for securing new registrations are apparent.

Namibia (South West Africa)—Trademarks in South West Africa Act, effective January 1, 1974. First applicant as user, or intended user, entitled to registration. Marks registrable parts A or B. Other provisions on duration, use, opposition and "Registered User" similar to those in Trademark Law of South Africa.

Nepal—Mark must be registered to be protected. No limitation on duration. First applicant is entitled to registration; no opposition proceedings.

Netherlands—See Benelux.

New Zealand—Registrations valid 7 years from application filing date, renewable for 14-year periods. First registrant, as user or intended user, is entitled to registration. Examination procedures. Opposition period 3 months. Marks registrable as Part A (distinctive) and Part B (capable of becoming distinctive). Part A registrations are incontestable on prior use grounds after 7 years. Certification, association and defensive marks are registrable. Mark can be cancelled if proven it was registered without intent to use and it was not used up to 1 month before application filed or, if not used within 5 years before cancellation sought. "Registered User" provisions.

Trademarks registered in New Zealand reportedly have validity in the Cook Islands, those registered in New Zealand before Jan. 1, 1962, also have effect in Western Samoa.

Nicaragua—Registrations valid 10 years from registration date, renewable for similar periods. First applicant is entitled to registration. Subsequently proven first uses may have registration canceled. Oppositions referred to courts for decision. No compulsory use but, if business in which mark is used ceases, or manufacture of goods is suspended for a year, registration is considered abandoned.

Nigeria—Registrations valid 7 years from application date, renewable for 14-year periods. Regulates divided into Parts A (distinctive) and B (capable of distinctive). First applicant, as user or intended user is entitled to registration. Opposition period is 2 months from publication. Registration cancellable if not used for 5 years. "Registered user" provisions.

Norway—Registrations valid 10 years from registration date, renewable for similar periods. First applicant is entitled to registration. Registration contestable on first user grounds within 5 years of registration date. Rights to mark, if well known as belonging to proprietor, can be acquired without registration. Examination procedures. Opposition period is 2 months after publication. No compulsory use.

Oman, Qatar—No trademark laws. Some protection available by publishing cautionary notice in certain Lebanese newspapers circulating locally.

Pakistan—Adopted provisions India Trade Marks Act of 1940. Registrations valid 7 years after application filing date, renewable for 15-year periods. First applicant, as user or intended user, is entitled to registration. Proven prior user may continue to use mark registered to another and may be entitled to concurrent registration. Applications examined, opposition period is 4 months after publication. Registered mark not used on a continuous 5-year basis is cancellable. Registration remaining valid 7 years is incontestable. "Registered User" provisions.

Panama—Registrations valid 10 years, renewable like periods. Marks owned and used abroad by foreigners registrable only on basis of prior home registration. Marks used only on goods made locally, registrable by first user in Panama. Applications examined, published for 3 months opposition. Registration must be used within 1 year of issue. Cancellation action by aggrieved party can be initiated at any time.

Paraguay—Registrations valid 10 years from registration date, renewable for similar periods. First applicant is entitled to registration. Registration only basis upon which proprietary trademark rights established. Applications examined only as to form, opposition period is 30 days after publication. No compulsory use except as ordered by government in individual cases. Infringement action cannot be brought by registrant after 3 years of the first occurrence of infringement or after 1 year from day registrant first knew about infringement.

Peru—Registrations valid 5 years from application filing date, renewable for similar periods. First applicant is entitled to registration. Applications examined, published for 30-days opposition. Mark must be used to be renewed.

Philippines—Registrations valid 20 years from registration date, renewable similar periods. To maintain registration owner must file at 5 year anniversaries, affidavit that mark still used. First user entitled to registration which becomes prima facie evidence of ownership. Examination procedures; opposition period 30 days after publication. Marks registrable Principal or Supplemental Register. Registered marks recordable at Customs for seizure infringing imports.

Poland—Registrations valid 10 years from application date, renewable similar periods. First applicant entitled to registration and recognized ownership. First user may, upon proof, have application rejected or registration canceled. Applications examined, published for opposition. No compulsory use. Infringement actions must be taken within 3 years after occurrence of infringing act.

Portugal—Registrations valid 10 years from registration date, renewable for similar periods. First applicant is entitled to registration. Prior user claimant may file for cancellation within 6 months of original contested registration's date, providing he has not used mark for more than 6 months without applying for own registration. Examination procedures. Applications published 3

months opposition. Registration can lapse if not used 3 consecutive years. Prior home registration requirement for U.S. applicants. Portuguese registration can be recorded for protection in colonies of Angola, Mozambique, Macao, Cape Verde Islands, Timor, St. Thomas, and Prince's Islands.

Rhodesia—Registrations valid 7 years application date, renewable 14-year periods. First applicant, as user, or intended user, entitled registration. Register divided Parts A, B, C, and D similar to U.K. law. Applications examined, published 2 months for opposition. Mark must be used within 5 years of registration date. Cancellation of Part A registration cannot be sought after 7 years of registration date. "Registered User" provisions.

Romania—Registrations valid 10 years from application filing date, renewable for similar periods. First applicant is entitled to registration. Applications examined, opposition period 3 months. Registrations incontestable after 5 years, except if obtained on fraudulent basis, are deceptive, or consist of official emblems or insignia. No use provisions.

Rwanda—Mark must be registered to be protected. First user is entitled to registration and enforcement of rights. Duration unlimited. No examination, opposition or compulsory use.

Ryukyu Islands (Okinawa)—Reverted to Japan, May 15, 1972. Japanese Trademark Law applies.

San Marino—No separate trademark law. Trademark rights obtained in Italy reportedly applicable.

Saudi Arabia—Registrations valid 15 years from application acceptance date, renewable for similar periods. First applicant is entitled to registration. Registration is incontestable after 5 years. Applications, after acceptance, published for opposition for 6 months. Person who can prove that he used mark for year before it was first registered can continue to use it. Customs authorities can seize imported goods bearing marks infringing those registered in Saudi Arabia.

Sierra Leone—Registrations valid 14 years from application filing date, renewable for similar periods. U.K. registrations may be registered in Sierra Leone concurrently with original registrations. Register divided into Part A (distinctive marks), Part B (marks capable of becoming distinctive). First applicant, as user, is entitled to registration. Applications examined, published opposition for 3 months. "Registered User" provisions.

Singapore—Registration valid 7 years from application filing date, renewable for 14-year periods. Register divided into Part A (distinctive marks) and Part B (marks capable of becoming distinctive). First applicant, as user or intended user is entitled to registration. Applications examined, published opposition for 2 months. Registration is cancellable if mark not used for 5 years. Mark can be registered independently without prior U.K. registration, except for textile products. "Registered User" provisions.

Somali Republic—Consists of former British Somaliland and Italian Territory of Somalia. Separate Registration Offices exist for each area. In former British area, owner of U.K. registration can apply for co-terminous registration. "Registered user" provisions exist. In former Italian area, registrations are valid 20 years.

South Africa—Registration valid 10 years from application filing date, renewable for similar periods. Registrations on applications filed before Jan. 1, 1964, are valid 14 years, renewable for 10-year periods. First applicant, as user or intended user, is entitled to registration. Under certain conditions, mark being used by more than one person can be registered to several parties for concurrent use. Marks registrable as Part A (distinctive) and B (capable of becoming distinctive). Part A registration, if valid 7 years, becomes incontestable on prior use grounds. Applications examined, published for 2 months opposition. Also, under informal procedures, Registrar can decide conflicting oppositions cases with the consent of both parties. Mark cancellable if not used within 5 years. "Registered User" provisions.

Spain—Registrations valid 20 years from registration date, renewable for similar periods. First applicant is entitled to registration. Registrations incontestable on prior use grounds after 3 years, if continuously used by registrant and valid during that period. Applications examined, published for 2 months' opposition. Cancellable, if not used 5 consecutive years, unless such non-use was due to *force majeure*.

Sri Lanka—Registrations valid 7 years from application date, renewable for 14-year periods. User or intended user of mark can apply for its registration. Another person proving first user at later date can have registration cancelled. Register has Part A (distinctive marks) and Part B (marks capable of becoming distinctive). Applications examined, published opposition 2 months. Mark not used 5 consecutive years may be cancelled upon request of an interested party unless non-use is due to conditions over which registrant had no control.

Sudan—Registrations valid 10 years from application date, renewable like periods. First applicant entitled to registration. Applications examined, published for opposition (6 months for local residents, 8 months foreigners). Mark must be used during 5 consecutive years preceding allegation of non-use by petition to cancel, otherwise can be cancelled.

Surinam—See Netherlands.

Sudan—Registrations valid 20 years from registration date, renewable for similar periods. First registrant entitled to proprietary rights in mark. Applications examined, published opposition 6 months. Infringement proceedings possible by mark's owner only if it is registered. Registration cancellable if not used 2 consecutive years.

Swaziland—Registrations co-terminous with those in United Kingdom or South Africa. No examination or opposition procedures. "Registered User" provisions.

Sweden—Registrations valid 10 years from registration date, renewable for similar periods. First applicant is entitled to registration. Registration incontestable on prior user grounds after 5 years. Rights can be acquired without registration where mark achieves wide reputation through established use of owner. Applications examined, published opposition 2 months. Registration cancellable if not used 5 consecutive years.

Switzerland—Registrations valid 20 years from application filing date, renewable for similar periods. Ownership based on first use, but mark must be registered to be enforced. Applications examined as to form and, if satisfactory, allowed. No opposition procedures. Marks must be used within 3 years of registration; and consecutively for 3 years thereafter; otherwise, can be cancelled.

Syrian Arab Republic—Registrations valid 15, 30, 45, or 60 years from registration date, at applicant's option. Applications examined; no opposition provisions. First applicant is entitled to registration. First user may contest registration within 5 years, otherwise mark becomes incontestable on prior user grounds unless shown that registrant knew about prior use when application was filed. Prior user who loses rights to contest registration can continue to use mark 15 years after date of registration. No compulsory use.

Tangier Zone—Continues to maintain Industrial Property Bureau in Tangier to receive applications, issue registrations. Registrations valid 20 years from application filing date, renewable for similar periods. First applicant entitled registration. First user, desiring to contest registration, must first file application for his mark. Applications published opposition 2 months. Registration cancellable, if not used 5 years.

Tanzania—Comprises the former areas of Tanganyika and Zanzibar. Until a permanent constitution is finalized, trademark laws of each area remain in force. Each has Register divided into Part A (distinctive marks); Part B (marks capable of becoming distinctive). First applicant is entitled to registration. Applications examined. Marks for cotton goods or metalwares must be registered first in United Kingdom. Applications published for opposition within 60 days in Tanganyika, 3 months in Zanzibar. Registration can be cancelled in either country, if not used within 5 years. Registrations are valid for 7 years in Tanganyika, in Zanzibar for 14 years, from application filing date. Renewal period is for 14 years in both areas.

Thailand—Registrations valid 10 years from application filing date, renewable for similar periods. First person applying as owner of mark is entitled to registration. Ownership based on proven first use. Infringement proceedings cannot be instituted on behalf of unregistered mark. Applications examined, published 3 months opposition. Registration not used 5 years cancellable.

Trinidad and Tobago—Registrations valid 14 years from application filing date, renewable for similar periods. Marks registrable as Part A (distinctive marks)

or Part B (marks capable of becoming distinctive). First applicant, as user or intended user, is entitled to registration. Applications examined, published opposition 3 months. Marks registered in United Kingdom qualify for registration. Registration cancellable if not used 5 years. "Registered User" provisions.

Tunisia—Registrations valid 15 years from application filing date, renewable for similar periods. Person applying as first user of mark is entitled to registration. No examination, opposition, or compulsory use.

Turkey—Registrations valid 10 years from registration date, renewable for similar periods. First applicant is entitled to registration. Registration contestable on prior user grounds within 3 years. Applications examined as to form, registrability. No opposition provisions. Ordinarily mark not used 3 years is subject to cancellation, nationals of Paris Union countries are exempt from such use requirements. Prior home registration requirement waived for foreign applicant on showing he is engaged in manufacture or trade of particular goods.

Uganda—Registrations valid 7 years from application date, renewable 14 year periods. First applicant, as user, or intended user entitled to registration. Register divided Parts A and B as in U.K. law. Applications examined, published for 60 days opposition period. Mark cancellable if not used within 5 years "Registered User" provisions.

United Arab Republic (Egypt)—Registrations valid 10 years from application filing date, renewable for similar periods. First applicant is entitled to registration. Contestable on prior user grounds for up to 5 years. Applications examined, published opposition 3 months. Registration cancellable if not used 5 years.

United Arab Emirates (Abu Dhabi, Dubai, Sharjah, Ajman, Umm al Qaiwain, Ras Al-Khaimah and Fujairah)—Ras Al-Khaimah is the only Emirate to enact a trademark law. In other Emirates, Cautionary Notice published in certain Lebanese daily papers may afford some protection.

In Ras Al-Khaimah, registration valid 10 years from application filing date, renewable for similar periods. Applications, if acceptable, published for 60 day opposition period. Registered mark must be used for 5 consecutive years, otherwise subject to cancellation. Registration incontestable after 5 years of use.

United Kingdom—Registrations valid 7 years from application filing date, renewable for 14-year periods. First applicant, as user or intended user, is entitled to registration. Marks registrable as Part A (distinctive) or Part B (capable of becoming distinctive) of Register. If valid 7 years, Part A registration becomes incontestable on prior user grounds. Applications examined, published for opposition within 1 month. Application refused for Part A can be amended for possible registration as Part B. Registration cancellable anytime on proof that it was obtained by fraud, consists of scandalous matter, is misleading or deceptive, has lost distinctiveness, or is

Pan-American Trademark
Conventions to which
U.S. adheres

| | 1910 ¹ | 1923 ² | 1929 ³ |
|--------------------------|-------------------|-------------------|-------------------|
| Bolivia | x | | |
| Brazil | x | x | |
| Colombia | | | x |
| Cuba | x | x | x |
| Dominican Republic | x | x | |
| Ecuador | x | | |
| Guatemala | | | x |
| Haiti | x | x | x |
| Honduras | | | x |
| Nicaragua | | | x |
| Panama | x | | x |
| Paraguay | x | x | x |
| Peru | x | | x |
| United States | x | x | x |
| Uruguay | x | | |

¹ Convention for protection of trademarks, signed at Buenos Aires Aug. 20, 1910; entered into force for U.S. July 31, 1912.

² Convention for the protection of commercial, industrial, and agricultural trademarks and commercial names. Signed at Santiago Apr. 28, 1923; entered into force for the U.S. Sept. 30, 1926.

³ General inter-American convention for trademark and commercial protection. Signed at Washington, Feb. 20, 1929; entered into force for U.S. Feb. 17, 1931.

Source: U.S. Dept. of State.

otherwise contrary to law. Applicant can obtain preliminary advice from Registrar whether mark qualifies for Part A or B, if advised that mark is registrable and applies within 3 months, but application rejected, filing fee is refunded. Mark removable from register if not used continuously for 5 years. "Registered User" provisions.

Many newly independent States which were formerly British Colonies, now have new and independent trademark laws. Some still recognize or require prior U.K. registration. These countries are summarized separately. Present British colonies and possessions generally fall into following broad categories regarding trademark protection afforded:

(1) Areas which provide protection only on the basis of existing registration in the United Kingdom, such as British Honduras, Falkland Islands, Gilbert Islands, Grenada, Gibraltar, St. Helena, Solomon Islands, Seychelles. Trademark registrations in these areas usually run for the duration of basic U.K. registrations.

(2) Areas where one can apply for independent registration or secure protection based on existing registration in the United Kingdom, such as Antigua, Bahama Islands, Bermuda, British Virgin Islands, Brunei, Dominica, Fiji Islands, Montserrat, Nevis, Anguilla, St. Vincent and St. Lucia. Registrations in these areas are usually granted for 7- or 14-year periods.

In Hong Kong, trademark registrations must be applied for on an independent basis under 1954 Ordinance. Register is divided into Part A (distinctive marks) and Part B (capable of becoming distinctive). Registrations valid 7 years (14 years if registered before January 1, 1955), renewable for 14-year periods. Mark becomes incontestable prior user grounds after 7 years registration. Applications examined, published for opposition 2 months. Must be used within 5 years. "Registered User" provisions.

USSR—Marks registered for term specified by applicant up to 10 years from application filing date, renewable on same basis. First applicant entitled registration. Unregistered mark not enforceable. Applications examined, if satisfactory, allowed. No opposition proceedings. Patent Bureau of the USSR Chamber of Commerce acts as agent for foreign applicants. Approved application reserved 3 months, if not completed by applicant, it is considered abandoned.

Uruguay—Registrations valid 10 years from registration date, renewable for similar periods. First applicant is entitled to registration. Contestable on prior user grounds up to 2 years after registration date. Applications examined, published *Official Gazette*. Oppositions must be filed within 20 days of last publication. No compulsory use.

Venezuela—Registrations valid 15 years from registration date, renewable for similar periods. First applicant is entitled to registration. Registered mark is contestable on prior user grounds up to 2 years after registration date. Applications examined, if satisfactory, published for opposition within 30 days. Registration not used continuously 2 years is subject to cancellation.

Western Samoa—Two registration systems. One based on overseas and other on non-overseas registrations. Owner of foreign mark acquired after December 18, 1972 may apply for registration within 2 years of earlier registration date. Mark registered before that date may be registered by December 19, 1974, if complies with law's registration criteria. Bona fide local users of a mark have priority over other applicants. Owners of New Zealand registrations registered before January 1, 1962, have priority over other applicants, if marks applied for before December 19, 1973. Registrations based on overseas marks have duration co-terminous with latter. Registrations not so based have 14-year duration, renewable like periods. Applications examined, published 3 months' opposition period. Mark must be used within 5 years of registration.

Yemen (People's Democratic Republic of)—No trademark law, except in Aden territory, where U.K. registrations may be registered for duration original

registration. Publication cautionary notice in newspaper only means of securing any other protection that may be available.

Yemen Arab Republic. No trademark law. Publication cautionary notice in local newspaper may afford some protection.

Yugoslavia -Registrations issued on an unlimited basis so long as registrant continues to pay required advance fees for years of protection desired. Registrations usually renewed on 10-year basis. First applicant is entitled to registration. Registration may be contested on prior user grounds within 3 years of registration date. Applications examined as to form, registrability, existence of conflicting registrations, if satisfactory, allowed. No opposition provisions. No compulsory use.

Zambia (formerly Northern Rhodesia)-Marks previously registered for the former Federation of Rhodesia and Nyasaland remain in effect in Zambia for their original term. Marks are registrable in Zambia for 7 years from application filing date, renewable for 14 years. First applicant, as user or intended user, is entitled to registration. Register is divided into Parts A (distinctive marks), B (marks capable of becoming distinctive), C (certification marks) and D (defensive marks). Applications examined, if satisfactory, published for opposition within 2 months. Registration cancellable if not used 5 years. Part A registration valid for 7 years is uncontestable on prior user grounds "Registered User" provisions.

Zaire-Marks registered for unlimited period. Registration granted first applicant but party later proving first use acquires legal ownership. No examination or opposition provisions.

WEBB-POMERENE ACT: OVERLOOKED BY EXPORTER

By VINCENT TRAVAGLINI, Director
Office of International Finance and Investment

Manufacturers and exporters are taking a fresh look at an export incentive measure approved by Congress over 50 years ago—the Webb-Pomerene (Export Trade) Act of 1918, subtitled An Act to Promote Export Trade.

Basically, the Act provides qualified exemptions for export trade associations from the prohibitions of the Sherman Antitrust act of 1890 and the Federal Trade Commission and Clayton Acts of 1914. This limited exemption from the antitrust laws is conditioned by safeguards to domestic business competition, and there must be no restraint of the exports of any domestic competitor.

One of the important purposes of the Act was to facilitate exporting by smaller companies. In general, a Webb-Pomerene association may act as the export sales agent of the members, arrange transportation for the goods of the members, agree upon prices and terms of trade for sale of the members' merchandise abroad, and arrange for distribution of the products in foreign markets.

Many exporters are unaware of the cost-cutting advantages offered by membership in such associations.

Association Export Activity

There are at present 34 registered export associations with over 300 member companies (see Annex A, page 59). Existing associations are merchandising a variety of products in foreign commerce ranging from mechanical pencils to phosphate rock.

Since inception of the Act, about 260 associations have been organized and well over 4,000 member companies have utilized the Act's permissive exemptions. The largest association formed to date consisted of some 277 members, although associations have been organized with as little as two members.

Webb-Pomerene associations accounted for about \$1.5 billion of U.S. exports in 1971, or about 3.5% of the U.S. total exports of \$43.6 billion in that year. The present percentage of total U.S. exports assisted by Webb-Pomerene associations compares with 2% in 1920 and a high of 17.5% in 1930.

How much of total exports currently reported can be ascribed directly to the influence of the Export Trade Act is not known. In the early years of the Act and through the thirties, it was customary for associations to participate strongly in marketing operations. Today, however, a large percentage of the associations perform

functions which, though related to the sales of their members' products abroad, do not necessarily represent actual buying or selling for exportation by the association.

For example, about one-fourth of the current associations actually ship the product and fix the price and terms and conditions of sales of their members' products abroad. Other associations perform a variety of functions such as developing new markets, maintaining trademarks, collection of marketing information, handling and remission of funds, and dissemination of statistical matter.

Although these functions relate indirectly to exportation of the product, they do not include those primary functions necessary to consummation of a sale to a foreign buyer. In these terms, the importance of export trade associations to total U.S. exports would appear to be less today than formerly.

Diversity in Size

There is a wide diversity in firm size among the members of the associations. Some have corporate members relatively large in size, others are composed of small business units, and still others are a combination of both large and small producers. Experience indicates that the successful export associations generally restrict themselves to a single commodity or group of related commodities.

Also, operations are most apt to succeed if the industry is one in which a limited number of producers account for the major proportion of production, and these leading producers are association members. Associations formed to handle a diversified line of non-competing products soon decided that joint export operations were not suitable for exploitation of unrelated goods.

Although firms representing the widest range of industry have been included in export associations at one time or another, those groups which have survived longest tend to be associated with a few specific and fairly homogeneous products. Foodstuffs (especially grains and flour, milk, dried fruit, and vegetable oil), certain mineral products, wood and paper products, motion pictures, and electrical equipment have been favorites.

Some associations have handled goods that are normally branded or trademarked, but manufacturers

have generally been unwilling to risk the substitution of a common association label or trademark for their own particular brands. It would appear that highly specialized and well-known branded products generally are able and prefer to "go it alone." A notable exception is the machine tool associations, which were organized chiefly to provide technical assistance and credit in markets too small to support separate facilities for each exporter, but even in this instance the goods are marketed under member's individual brand names.

Forming an Export Association

Legal formalities for setting up a Webb-Pomerene association are simple. The Act requires only that the association file with the Federal Trade Commission (FTC) within 30 days after its organization.

- A verified written statement setting forth the location of its offices or places of business.
- Names and addresses of all its officers, stockholders and members.
- If incorporated, a copy of the certificate or articles of incorporation and by-laws, or if non-incorporated, a copy of the articles or contract of association.

The Act also requires associations to file on the first of January every year a statement incorporating any changes in the above information which may have occurred during the calendar year. No other regular reports are required for registration, though the Federal Trade Commission which administers the Act, may, from time to time, require information from the association concerning its organization, business conduct, practices, management, and relation to other associations, corporations, partnerships and individuals.

If the Commission has reason to believe that the law has been violated, it investigates and then makes recommendations for readjustment of the association's business. Should an association fail to comply with the recommendations, the Commission refers the matter to the Attorney General for appropriate action.

Ordinarily an export association is formed at a meeting of representatives of the industry involved, and in some instances all producers interested in export have been invited to join. Some associations, therefore, represent a large percentage of an industry or a large proportion of the export commodity to be sold, but this is not always true. Also there may be more than one association within an industry.

No exporter seeking membership in an association is known to have been refused although memberships in some instances are limited. When the Act was passed, the fear was expressed that an exporter would have to turn over all of his existing business to an association on joining. This has not proved true, however, since members of some associations have continued their independent efforts outside of the association. Such independence tends to weaken the association and raise objections by other members.

In most instances the associations follow the lines of cooperative organization—that is, they usually operate on a nonprofit or expense basis. If the association is

incorporated, stock may be divided with reference to size or volume of exports, or the stock may be of nominal value with each member holding one share. If the association is not incorporated, the initial membership fee is usually the same for all members, but assessments to meet expenses are on a commission basis or represent a percentage of sales made for each member.

Nature of Exemption

The Sherman Antitrust Act, which prohibits contracts, combinations or conspiracies in restraint of trade, and monopolization, also applies to commerce with foreign nations, including U.S. export and import trade. Section 2 of the Webb-Pomerene (Export Trade) Act exempts from these prohibitions associations formed for the sole purpose of engaging in export trade and actually engaged solely in export trade. The exemption includes agreements made or acts by the association in the course of export trade.

Exemption under the Webb-Pomerene Act, however, applies to any association operating under the aegis of the Act only if it does not do any act which "artificially or intentionally enhances or depresses prices within the United States of commodities of the class exported by the association, or substantially lessens competition within the United States or otherwise restrains trade therein."

In explaining this provision, the Senate Committee on Interstate Commerce stated:

"While we realize that any sales in foreign commerce may incidentally and temporarily result in the increase in prices of the same article to home consumers, these associations ought not be permitted to so conduct their affairs as to artificially or intentionally and unduly enhance prices of the commodities in which they are dealing to the home consumer."

Section 3 of the Webb-Pomerene Act provides an exemption from the merger provisions of Section 7 of the Clayton Act with respect to member companies buying stock in an export trade association, thereby making it legal for competing sellers to join together if there is no restraint of competition within the United States.

Section 4 of the Act broadens Section 5 of the Federal Trade Commission Act to include unfair methods of competition used in export trade, "even though the acts constituting such unfair methods are done without the territorial jurisdiction of the United States."

Association Functions

The purpose of the Webb Act is to encourage the export of U.S. products. The association may serve as export agent for the member companies, taking orders, negotiating sales, and handling the shipment of the goods. Or, the association may purchase the members' products for resale in foreign markets, under terms and conditions agreed upon by the members.

Some associations employ agents and maintain offices abroad. The expense of developing the sale of members' products through advertising and introducing them in new markets may thus be shared by all the members. The association may bid on and secure large orders for shipments over a long period, which a single company could not handle. It can fill orders for a variety of grades, styles and dimensions by allocating the business among members.

Price-fixing, allocating quotas for export, setting agreed terms of sale, and adopting uniform sales contracts are other association functions. Through the association's power to make joint shipping arrangements, important savings may be effected.

Practically all of the associations perform informational services for the members. They collect and disseminate trade information on market conditions abroad, foreign credits, stocks available for export by the members, the foreign exchange situation of certain foreign countries, tariff requirements, shipping rules and regulations, foreign laws affecting foreign trade, and other data of value to U.S. firms seeking export business.

Not Exempted

In Federal Trade Commission recommendations for readjustment and in court decisions generally, the following conduct has been found to be outside the Webb exemption (the list is not intended to be a complete catalog of all possible illegality):

Combination or joint operations with foreign producers; agreements with U.S. firms which are not association members; establishment of joint manufacturing foreign subsidiaries, restrictive joint licensing activities; restriction of members' patents, preventing imports into the United States; denying members giving reasonable notice—for example, 1 year—the right to withdraw from the association, or forcing former members to export through the association indefinitely, accepting foreign customers or their representatives into an export trade association, requiring members to sell all their products in export exclusively through the association.

Court Interpretation

The amount of court interpretation of the Webb Act is limited, (there have been only two cases which offer significant help).

The most important court construction of the Act occurred in 1950 in a case in which a Federal District Court held illegal an arrangement by four American Webb association members to establish jointly factories in England, Germany, and Canada. The decree of the court required termination of the joint control over these foreign companies and the court confined the association's activities to the specifics of the statute—a combination for engaging solely in export trade.

The Department of Justice had argued that it was unlawful for the dominant U.S. manufacturers of coated abrasives, which controlled four-fifths of the U.S. export

trade in that commodity, to combine for the exporting exclusively through one corporation which they could fix prices, quotas, and deal in foreign markets. The court noted, however, was not unlawful, stating:

"Now it may very well be that every export company does inevitably affect all foreign commerce of those not in the joint and does bring the members of the enterprise together as to affect adversely the members' sales in domestic commerce. Thus, every export may be a restraint. But if there are only the consequences an export association is not a restraint. The Webb-Pomerene Act is an expression of Congressional will that such a restraint should be permitted. And the courts are required to give grudging support to the policy of the Webb Act as to the policy of the Sherman Act."

The court stated further that "The removal of four-fifths of an industry into one export company is not a restraint, and accordingly, it is held that the association, which combined the entire industry could lawfully fix export prices. The court replaced the provision binding members for a period of 20 years, by a "reasonable wait and allowance."

Although the FTC has never required the association engage in the export of a single product, it was formerly of the opinion that the export of products which were produced, manufactured or developed from domestic sources qualified for export trade under the Act. However, by its unpublished opinion the FTC liberalized its position to include products with respect to which any part of the production or processing took place in the United States, provided the product was physically removed from the United States.

The attrition rate for associations has been high. The median life span for all associations have dissolved is 4 to 5 years. A number of associations expired during or immediately following the hostilities and restrictions of World War II, although some were already weak and might have been dissolved if war had not occurred.

Aside from this, it seems that changing market conditions abroad resulting in loss of competitive conditions for U.S. suppliers has been a prime cause of dissolution.

No tabulation has yet been made of all the why individual members resign from thriving associations, but the few replies received indicate that business—either export or domestic—and inter-industry primary causes.

Impact of Foreign Antitrust Laws

One of the characteristics of the post-war economic development of Europe is the increasing attention paid to the effect on trade and investment of a restraint of trade through agreements, undertakings and monopolistic positions in industry.

The European Common Market Treaty of Rome contains in Articles 85 and 86 rules against price-fixing, limitations on production, marketing, technical development or investments, divisions of markets, discrimination, and tying agreements. The aim is to free all restraints on interstate flow of trade. These provisions are enforceable by imposition of fines and penalties.

In the applicability of the Treaty antitrust provisions to Webb associations, it would appear that if agreements and practices affect trade among the member states, the agreements are subject to Article 85 and may be outlawed regardless of where they are made. Thus, U.S. Webb-Pomerene export association action having the effect of dividing up European national markets and prohibiting export from one Common Market country to another might well be subject to Article 85. However, no cases involving Webb associations in the Common Market have yet developed.

It has been observed of Webb-Pomerene associations that such combinations of U.S. business may logically cause concern to other countries. In a recent case before the British Restrictive Practices Court (National Sulphuric Acid Association Ltd's Agreement), the Court upheld an agreement between (British) buyers on the ground that it enabled the buyers to secure fair terms from a preponderant seller, a Webb-Pomerene Association.

Common Market export associations, however, are exempt from the antitrust sections of the Rome Treaty and also under the antitrust laws of Germany, the United Kingdom, Belgium, France, and the Netherlands, at least to the extent that they do not affect the internal market. The German Law against Restraints of Competition contains two main prohibitions directed primarily against horizontal and vertical restraints, both of these sweeping proscriptions are subject to many qualifications and limitations, including the general exemption of export cartels.

A similar exemption is provided in the Restrictive Trade Practices Act of the United Kingdom. The Act, which proscribes restrictive agreements, provides certain gateways which if established to the Court's satisfaction save the agreement. One of the gateways is that "removal of the restriction would be likely to cause a reduction in the volume or earnings of the export business which is substantial either in relation to the whole export business of the United Kingdom or in relation to the whole business of the said trade or industry."

Whether the Webb-Pomerene Act has any benefits to offer is a question each industry and trade group must answer in terms of its own situation and problems. Some industry organizations have commissioned special studies to provide the information necessary to make a decision. Both the Department of Commerce and the Federal Trade Commission offer their assistance in carrying out such studies.

Industry still has interest in the economic benefits to be derived from joint exporting. This is demonstrated by the recent (September 1972) formation of Amatex, an association formed to push the export of textile machinery. Composed of 22 domestic producers,

Amatex will offer complete package deals or turnkey operations to foreign textile mills. Any domestic producer is eligible for membership.

A Webb-Pomerene association may occupy the same status as an independent exporter so far as some government programs and helps are concerned. For example, there appears to be no reason why a Webb group could not be formed as a Western Hemisphere Trade Corporation so as to qualify for lower income tax rates, if it complies with the requirements of relevant provisions of the tax code. Webb law associations also may avail themselves of opportunities offered by the financial aids of the Export-Import Bank—loans, guarantees and export credit insurance.

In addition to receiving the antitrust exemption provided by the Webb-Pomerene Act, associations may also qualify for the special tax benefits provided by the Domestic International Sales Corporation (DISC) provisions of the Revenue Act of 1971 (Public Law 92-178). A Webb association can qualify for special DISC tax treatment if it is organized as a corporation. If an association is not in corporate form it may reorganize as a corporation and readily qualify as a DISC. A Webb-Pomerene Association which qualified as a DISC would have one-half of the Federal income tax on its export earnings deferred and could make "producer's loans" of the income thus deferred to its member companies or other export producers.

ANNEX A

WEBB-POMERENE ASSOCIATIONS

| <i>Name and Address</i> | <i>Year Formed</i> | <i>Members</i> |
|--|--------------------|----------------|
| AFRAM Films, Inc. 552 Fifth Avenue New York, N.Y. 10036 | Mar 1970 | 7 |
| Amatex Export Trade Ass'n No 100 W 10th St. Wilmington, Del. 19801 | Sept. 1972 | 22 |
| American Alfalfa Export Ass'n 915 Spitzer Building Toldeo, Ohio 43604 | May 1966 | 7 |
| American Motion Picture Export Co. (Africa), Inc. 522 Fifth Ave New York, N.Y. 10036 | May 1961 | 9 |
| American Railway Car Export Ass'n Room 1505 11 East 44th St. New York, N.Y. 10017 | Jan. 1957 | 2 |

| | | | | | |
|---|-------------------------|----|---|-------------------------|----|
| American Wood Chip Ass'n 900 S.W. Fifth Ave 23rd Floor Portland, Oreg. 97204 | Aug. 1974 | 3 | Pacific Agricultural Cooperative for Export, Inc. c/o Pillsbury, Madison & Sutro 225 Bush St San Francisco, Calif. 94104 | Nov. 1967 | 13 |
| Ametool Services, Corp 4701 Mainburg Ave. Cincinnati, Ohio 45209 | June 1949 | 14 | Pacific Coast Agricultural Export Ass'n 323 Monte Vista Ave., No. 206 Oakland, Calif. 94611 | June 1963 | 11 |
| Amtan, Ltd. 100 West 10th St. Wilmington, Del. 19801 | Aug. 1972 | 2 | Pacific Coast Food Export Ass'n 680 Beach St. San Francisco, Calif. 94109 | Nov. 1967 | 3 |
| Anthracite Export Ass'n c/o John D. Jillson Secretary-Treasurer 2115 North Second St. Harrisburg, Penna 17110 | Jan. 1952 | 6 | Pencil Industry Export Ass'n 167 Wayne St. Jersey City, N.J. 07303 | Oct. 1939 | 4 |
| California Dried Fruit Ass'n 303 Brokaw Road P.O. Box 270A Santa Clara, Calif. 95052 | June 1925 | 20 | Phosphate Chemical Ass'n c/o Foley, Lardner, Hollataugh & Jacobs Mr. Howard Fogt 815 Connecticut Ave., N.W. Washington, D.C. 20006 | Aug. 1974 | 3 |
| California Rice Export Ass'n 601 California St. Suite 707 San Francisco, Calif. 94108 | 1939-1942 Sept. 1947 | 4 | Phosphate Rock Export Ass'n Suite 817 910 17th St., N.W. Washington, D.C. 20006 | Aug. 1970 | 5 |
| Flour Millers' Export Ass'n 860 Grain Exchange c/o Peavey Company-Flour Mills Minneapolis, Minn. 55415 | Aug. 1942 | 20 | Plutonium Export Ass'n c/o Taylor R. Buggs, Esq. 1 Chase Manhattan Plaza Room 4800 New York, N.Y. 10005 | Oct. 1968 | 6 |
| Fourdrinier Wire Cloth Export Ass'n 1625 Eye St., N.W. Washington, D.C. 20006 | Oct. 1967 | 12 | Plywood International c/o Schweppe, Reiter, Doolittle & Drug 657 Colman Building Seattle, Wash. 98104 | Aug. 1964 | 20 |
| Kaolin Clay Export, Inc. 170 Broad St. P.O. Box 667 Red Bank, N.J. 07701 | Aug. 1963 | 4 | Potash Export Ass'n, Inc. c/o Mr. Dean R. Gidney 630 Fifth Ave. Room 2645 New York, N.Y. 10020 | Sept. 1938 | 6 |
| Motion Picture Export Ass'n 522 Fifth Ave. New York, N.Y. 10036 | June 1945 | 9 | Paip, Paper & Paperboard Export Ass'n of the U.S. 90 Park Ave. New York, N.Y. 10016 | Aug. 1952 | 19 |
| North Coast Export Co. 4389 Campton Road Bureka, Calif. 95501 | Sept. 1971 | 12 | Sulphur Export Corp. 375 Park Ave. New York, N.Y. 10022 | 1922-1952 Sept. 1958 | 3 |
| Northwest Dried Fruit Ass'n c/o D. J. Duncan P.O. Box 23126 Tigard, Oreg. 97223 | May 1927 | 3 | Talmex Export Corp. 280 Battery St. P.O. Box 2415 San Francisco, Calif. 94126 | Mar. 1969 | 6 |
| Ohio Alfalfa Export Corp. 2404 Summit St. Toledo, Ohio 43611 | Feb. 1966 | 5 | | | |

| | | | | | |
|---|-----------|----|--|-----------|---|
| USA-TEX 111 Corcoran St Durham, N.C. 27702 | Feb. 1973 | 15 | Walnut Export Sales Co., Inc. 630 North College Ave. Suite 401 Indianapolis, Ind. 46204 | Oct. 1921 | 2 |
| Vegetable Oil Export Corp. P.O. Box 246 Littleton, N.C. 27850 | Apr. 1958 | 4 | Wood Fibre Export Inc. 877 Willamette St. Eugene, Ore. 97401 | June 1970 | 5 |

January 1975

JAPAN'S SYSTEM OF INDUSTRIAL PROPERTY RIGHTS PROTECTION REVIEWED

By JOSEPH M. LIGHTMAN
Foreign Business Practices Division

Many American businessmen, viewing Japan's phenomenal economic growth and its position as a leading trading nation, are seeking to establish more contacts and to develop better opportunities in the Japanese market. They are therefore highly interested in protection for their products, processes, industrial designs, trademarks, and other technical property rights in that country.

This article is intended to provide such businessmen with (1) general information on the Japanese system of industrial property rights protection and (2) guidelines relative to procedural aspects of that system.

Advanced Property Law

Japan has well-developed patent, trademark, and industrial design protection laws comparable to those of the United States and other industrialized countries, although differing in some details. Japan follows the same general principles, as do the industrialized Western countries, of granting legally exclusive patent rights to the owner of an invention who applies for such rights and whose invention meets the law's criteria governing novelty and patentable subject matter. Patents are granted for 15 years from the application's publication date; if more than 5 years have elapsed between the filing and publication, the life of the patent will be 20 years from the application filing date.

Regarding trademarks, Japan has no prior user requirement as a condition for registration, as does the United States. The first applicant for a trademark is entitled to its registration and exclusive right to use the mark on the products for which it was applied. After a lapse of 5 years, a registration becomes incontestable on certain grounds that might otherwise serve as the basis for its cancellation through legal proceedings brought by a third party. Anyone using in Japan, prior to the application date, a mark similar or identical to one already registered by someone else, may continue to use it, if his mark had become widely known in Japan prior to the other party's application.

Trademarks are registered for 10 years from registration date, and are renewable for similar periods. Protection of industrial designs is also afforded through registration by the Japanese Patent Office. Registrations are granted to applicants based on criteria of novelty and

acceptable subject matter of the designs. Duration of a design right is 15 years from registration date.

Japan is a member of the Paris Union International Convention for the Protection of Industrial Property, adhered to by the United States and about 80 other countries, which is the major intergovernmental agreement in the patent, trademark and industrial design fields. U.S. businessmen are thus entitled to the same treatment under Japanese laws on these subjects as that Government extends to its own nationals.

U.S. businessmen are also extended certain special advantages, such as protection against arbitrary forfeiture of their patents, if not immediately worked; and 1 year, after first filing a patent application in the United States, in which to file a corresponding application in Japan and receive on the latter the date of the first filed application ("right of priority"). The priority period is 6 months in the case of trademark and design applications.

Unique Measures

The Japanese Government has taken several unique administrative measures to prohibit unfair practices in export trade.

Under the Export-Import Transactions Law, an Export Trade Control Order (Cabinet Order 378, 1949) was issued permitting the Ministry of International Trade and Industry to prohibit exports of Japanese products likely to infringe patents, trademarks or designs registered in the country of destination.

The government has also encouraged local industries to establish national Design Centers to handle activities in promoting new industrial designs and in preventing exports of products likely to incorporate foreign-owned registered designs. Those in existence are the Textile Color Design Center, the Pottery Design Center, the Export General Merchandise Center (sometimes called the Sundry Goods Design Center) and the Machinery Design Center. Under an Export Commodities Design Law, certain Centers have been given legal powers to designate specific products that must be validated by the government before they can be exported. Validation of a designated product is granted only if the Center determines that its design does not imitate a design registered with the Center for such protection.

More information on the above procedures and the protection they provide, as well as on other pertinent laws, is contained in the Foreign Business Practices' publication "Patents, Trademarks and Licensing in Japan" (OBR 73-04, February, 1973). This is available for 50 cents from the Publications Sales Branch, Room 1617, U.S. Department of Commerce, Washington, D.C. 20230.

Competent Counsel a Must

It is particularly important for an American businessman interested in doing business in Japan, or concerned about Japanese competition in world markets, to secure as much protection as he can in Japan for his products, technology and other industrial property rights. Competent legal counsel should be retained for advice and assistance on the procedures to be followed in securing such protection.

In Japan, as in most countries, a foreign applicant for patent, trademark, or design rights must appoint an attorney domiciled there to represent him in dealings with the country's Patent Office and in other legal prosecutions.

If an American firm or its U.S. legal representative needs assistance in selecting a foreign attorney, lists of such attorneys practicing in these fields in Japan are available through any of the Commerce District Offices or the Export Information Division, U.S. Department of Commerce, Washington, D.C. 20230.

The protection that an American businessman can expect to receive against local copying of his product, markings or technology will depend primarily on the patent, trademark and design protection rights he has acquired for them in Japan.

Also, it is difficult for a businessman to secure administrative relief through the Japanese Ministry of International Trade and Industry, or the Design Centers, in his complaint against copying unless such legal rights on his product in Japan can be ascertained. Legal procedures are established under Japanese laws for relief through infringement, cancellation or other proceedings.

The U.S. businessman seeking relief through administrative or judicial channels in a complaint involving impairment of his rights should properly do so through his legal representatives in Japan. The U.S. Government is not in a position to undertake or interfere in legal proceedings.

For Immediate Help

If a U.S. businessman has no representative in Japan or is in need of immediate assistance, his complaint may

be forwarded to proper channels through the U.S. Embassy.

When the Department of Commerce receives such requests for assistance it reviews the details to see that full information is provided on the complainant firm's patent, trademark and design protection position in Japan, as well as in the United States and elsewhere. This information is usually required by the Japanese authorities.

Also of interest is whether the U.S. businessman has sought infringement action against the foreign manufacturer and importers in the United States and elsewhere. Sufficient samples, photographs, and other materials should be made available to substantiate the allegations. If it appears that the information is adequate, the matter will be referred to Tokyo.

It is evident, from figures published by the World Intellectual Property Organization (WIPO) which administers the Paris Union Convention, that businessmen are becoming increasingly aware of the need for patent, trademark and industrial design protection in Japan. Latest available figures (as of Dec. 31, 1973) show that in recent years U.S. nationals have originated about 45% of the 27,000 to 30,000 annual patent applications filed by foreigners and have received about one-half of the 9,000 to 12,000 patents granted each year to foreigners in Japan. U.S. nationals have also accounted for about one-half of the 13,000 to 16,000 annual trademark applications filed by foreigners, and of the 3,000 to 4,000 trademark registrations granted to foreigners in that country, annually. U.S. nationals further account for about 40-45% of the 1,000 foreign design applications filed, and about 50-60% of the 300 to 400 foreign design registrations acquired annually.

Further statistics on this subject are indicative of the important role Japan is assuming in the international industrial property rights picture. As of December 31, 1973, there were about 280,000 patents in force in Japan, placing it fourth behind the United States (1,003,000), Canada (404,000), and France (398,000). Japan had more trademark registrations in force (692,000) than any other country that reports such statistics. The United States and France followed with about 375,000, each. Japan's design registrations in force totaled about 172,000 also more than any other country, followed by the United States and the United Kingdom with about 39,000 each.

The U.S. Embassy in Tokyo has pointed out that U.S. businessmen may find that important export as well as domestic business opportunities are being lost in Japan by failure to apply for protection of their patent, trademark, and design rights in that country. The basic responsibility for acquiring, maintaining and enforcing such rights rests with the businessman and his legal representatives.

LICENSING, JOINT VENTURES AID TECHNOLOGY TRANSFER

By VINCENT D. TRAVAGLINI, Director
Office of International Finance and Investment

Every firm engaged in international trade has occasion at some time to consider overseas licensing of industrial property rights and joint ventures with foreign partners. A frequent pattern of market penetration has been for companies to begin by exporting and go on to licensing and joint venture arrangements. Both are excellent channels for the exercise of what has been called the fourth Economic Freedom—the Freedom to Exchange Technology.

Licensing Agreements

The rights granted in foreign licensing agreements are of three distinct types: patent rights, trademark rights, and know-how rights. The combination of these rights licensed in any particular agreement will depend on the respective resources and needs of the contracting parties, and on the products or technology involved.

Patents are limited monopoly rights conferred by the government of a country within its own area, and in accordance with its own laws and regulations. Ownership or control of a U.S. patent does not automatically give protection in other parts of the world or provide the basis for a license grant to a foreign concern.

To obtain foreign patent rights the company must file a separate application in each country in which it desires protection. Under the International Convention for the Protection of Industrial Property, the person or concern filing an original patent claim in one member country has a priority right of application for the corresponding patent right in other member countries for a period of 1 year following the original filing. The number of countries which belong to the Convention has been rising steadily and now stands at about 80, including all of the industrialized nations; the Soviet Union joined in 1965 and most of the other European communist countries are also members.

Therefore, the U.S. company interested in securing foreign patent rights for licensing purposes should apply for these rights within 1 year after applying for the U.S. patent. The laws and regulations governing the registration, use and protection of patents, trademarks and other industrial property rights are many and complicated. Any company interested in obtaining and exploiting foreign patent rights, either directly or through licensing arrangements, should have the help of a competent patent attorney.

Like patents, trademarks are a limited monopoly right granted by a government within its own geographic area. A U.S. company acquires its foreign rights by use and/or registration in each country in which it desires protection, and retains these rights by observing the local laws and regulations with respect to renewals, fees, supervision and use of the registered marks.

Unlike patents, which have a limited life of 15, 17, 20 or other fixed term of years, depending on the country, trademark registrations can be renewed. In this respect, therefore, a trademark can be a more lasting right than a patent. They are most valuable, of course, in connection with consumer goods and other products which retain their identity at the stage they are merchandised and sold to the ultimate consumer.

Fast Action Required

Trademark registration abroad is facilitated and protected by the International Convention in much the same manner as patent applications, but the priority right of registration is limited to 6 months. Only by timely and wide-spread registration can a company be sure of having the right to use, and to keep others from using, its domestic trademark in foreign markets. Registration fees vary in amount but the cost per country is relatively small.

As in the case of patents, the owner can assign or sell his trademark in a given area, or can license its use to others. However, in the case of licensing he must in most countries undertake a supervisory responsibility beyond that required in patent licensing.

While know-how is gaining recognition as a legal property right, it does not have statutory protection like that for patents and trademarks. So in granting a foreign company the right to use its unpatented know-how, the licensing company is quite dependent on good faith and contractual safeguards for the protection of its ownership rights.

While know-how rights can be licensed alone, and are frequently the most valuable consideration included in a licensing agreement, it is common practice to link them with a patent or trademark right when this is at all feasible. The know-how enhances the value of the other licensed rights, while the inclusion of a patent or trademark license gives the licensor a statutory basis for more control over the use of the licensed know-how.

Eight Licensing Advantages

Not many companies confine their foreign operations to licensing alone. Most firms view licensing as a supplement to exporting, manufacturing, or both rather than as a sole means of entering overseas markets. However, particularly for those who for financial or staff limitations are limited in the resources they can devote to foreign business, this may be the most feasible method of penetrating an overseas market. Here are some of the reasons companies have given for getting into foreign licensing.

- Licensing opens the way to getting a foothold in foreign markets without large capital outlays. It is, therefore, a favorite device for small and medium-sized companies.

- Returns are apt to be quicker in coming than in the case of manufacturing ventures.

- The income from foreign licensing helps to underwrite costly research programs.

- Licensing enables a firm to retain markets otherwise lost by import restrictions or because it is being outpriced.

- Licensing can be used to test a foreign market and then to service it without costly additions to production or detracting from the supply available for local customers.

- To develop outlets for components or other products and to build goodwill for other company products.

- To protect patents and trademarks (e.g., against cancellation for nonuse).

- To establish a company in countries which are sensitive to foreign ownership.

In hazardous situations licensing can provide a local base without the risk of investment. For example, some of the risks of marketing in the countries of Eastern Europe can be avoided through licensing arrangements. Similarly, in the developing countries emergent industry often provides the basis for technical assistance in a gradually developing market that could not justify a major investment and that may be closed to imports by tariffs or other barriers.

Reciprocal Benefits

Some licensors consider the acquisition of foreign license rights one of the major benefits to be gained from licensing operations. For this reason reciprocal license grants are frequently made in a manufacturing or patent licensing agreement as partial compensation for the rights and know-how made available by the licensor. Where a foreign licensee has no reciprocal rights or know-how to offer the licensor at the time a licensing agreement is concluded, it is often customary to include in the licensing contract a grant-back or feed-back commitment with respect to the rights and know-how supplied by the licensor.

All should be aware of the principal hazards and disadvantages of licensing as a marketing technique.

- Every licensee is a potential competitor. However, if the arrangement is truly of mutual benefit, both parties will want to perpetuate it and continue to exchange know-how and product improvements.

- Licensor control over the licensee's manufacturing and marketing operations is rarely completely satisfactory. This can result in damage to your trademarks and company reputation. The technique for averting this problem lies in careful investigation before selecting a licensee, and maintaining quality control whenever a trademark or trade name is licensed.

- Licensing is probably the least profitable way of exploiting a foreign market. On the other hand the risks and headaches are usually less than investing, although perhaps more than exporting. Moreover, licensing may represent the only way to enter certain markets and the return, although small, is better than losing out altogether.

Before turning to the government services which can help you in licensing operations, it is revealing to note briefly the part it plays in our international balance of payments.

Licensing Earnings

It is very difficult to measure the actual money payments on licensing account to and from all U.S. firms. However, fairly reliable estimates have been developed which at least give an idea of their general size and the trends. These figures cover payments for the licensing of patents, trademarks, and know-how, and include income from copyrights and management fees directly connected with the transfer of intangible property.

In 1974 payments to Americans from foreigners in connection with the licensing of intangible property were \$3.67 billion, divided \$2.87 billion in payments from direct investment sources abroad and \$800 million from nonrelated foreign firms. This represented an increase of about 13% over the 1973 total of \$3.25 billion. These figures also include management and service fees connected with licensing. Over the years income from direct investment licensing has increased more than income from licenses with nonrelated firms.

On the other side of the ledger, payments from the United States to foreign licensors of industrial property have also risen steadily from year to year. In 1974 these out payments amounted to approximately \$405 million.

Thus, the United States had a favorable balance as far as licensing is concerned of some \$3.27 billion in 1974 and \$2.87 billion in 1973. These figures, it should be noted, reflect only pure royalty and fee payments. If one takes into account the merchandise shipments which frequently accompany licensing arrangements, the earnings attributable to licensing would be much larger.

What help does the government provide to firms that want to engage in licensing transactions? There are a number of pertinent programs, most of which have been emphasized and expanded in recent years as an important part of the national effort to combat the balance of payments deficit.

Government Aids and Services

The Department of Commerce can provide economic marketing and financial information, some of it free, and some at a very low cost where special services are required.

It can provide trade lists to help in finding customers, distributors, agents and licensees abroad, world trade directory reports containing basic commercial and financial information on specific foreign firms and individuals, and all kinds of customs, tax, and legal information, including patent and trademark regulations abroad.

Two services are available from the Department of Commerce to help persons or companies find a qualified licensee abroad. If the potential licensor wishes to address his appeal to a wide audience in many countries, the Department will arrange to publish the proposal in *Commercial News* — a monthly publication sent to all Foreign Service Posts. If the American firm can identify three to five countries of particular interest, the Department will request the Foreign Service to canvass the local business community and identify the most promising prospects. For further information write to Foreign Investment Services Staff, Office of Export Development, Room 4021, U.S. Department of Commerce, Washington, D.C. 20230.

The Bureau of International Commerce (BIC) periodically sponsors trade missions to potential foreign markets. The missions are basically selling teams sent out to develop business opportunities. The mission members talk in person with foreign businessmen. They take with them specific business proposals submitted by American firms. The teams include experts in various lines of business and industry, often including persons experienced in licensing techniques. They return with proposals and offers submitted by foreign firms and these are made freely available to the business community.

BIC also reviews reports submitted by U.S. Commercial Officers abroad for trade, investment and licensing opportunities. Most of them are published in *Commerce Today* and receive further dissemination as well. A good proportion of these opportunities report on the interest of foreign companies in U.S. patent, trademark or other property rights.

Information on these and other Commerce services is available from Department's District Offices throughout the country.

The Overseas Private Investment Corporation (OPIC) seeks to increase investment by U.S. private enterprise in the economies of free less developed countries by guaranteeing investors against certain political and business risks. Specific risk guarantees are available in most less developed countries against any or all of the following risks: inability to convert earnings or return of the original investment into dollars; loss due to expropriation; and damage to property resulting from war, revolution, or insurrection.

Guarantees are issued to cover an investment in the form of a licensing agreement for the use of patents, processes and techniques in exchange for royalty pay-

ments. Ordinarily, however, an agreement calling for payments of royalties or fees will not be eligible for guarantees unless the investment is intended to extend for at least 5 years.

Congress specifically included these intangible assets in the investment guaranty program to encourage the spread of advanced technological methods. Trade names, trademarks and goodwill, while often closely associated with the license of patents, processes and techniques, are not eligible for guarantees. The maximum convertibility coverage obtainable under a licensing agreement is the sum of the royalty payments over the life of the contract. The investor must furnish OPIC with a copy of the licensing contract and substantiate both the reasonableness of the royalty rate and the estimate of royalty payments.

Attitudes abroad are favorable to both licensing and joint ventures. Some 60 governments have adopted special legislation or policy statements relating to the conditions for the investment of private capital. Some of these laws apply to the licensing of industrial property and their provisions should be checked to see if the benefits provided are available to licensing agreements. The laws usually cover such matters as provisions relating to entry and approval procedures, assistance against expropriation, right to transfer profits and capital, limited exemptions from income and property taxes, and exemption from payment of certain import duties.

Most governments are positively favorable to both licensing and joint ventures because of three principal factors: (1) import substitution with cost savings; (2) export possibilities; (3) training of local management and technicians in modern business and industrial methods. They are cautious, however, because of the foreign exchange costs and because of the possible impact on domestic competitors.

Tax Considerations

The enactment of the Tax Revision Act of 1962 interrupted the growing use of U.S.-controlled foreign subsidiaries to carry on licensing operations. However, one of the prime incentives for licensing continues to be the much lower royalty tax on patents, trademarks and other services over corporate rates. Under double taxation treaties, royalties received for copyrights, patents, trademarks, etc., are either exempt from tax or taxed at a reduced rate. The U.S. has tax treaties in force in all of the Common Market countries and in all European Free Trade Area countries except Portugal.

The U.S. Government has also attempted to include provisions in tax treaties with most of the developed and a few of the underdeveloped countries which would encourage technology transfer through licensing. These treaty provisions characteristically provide, subject to prescribed conditions, that royalty income from industrial and intellectual property licenses are exempt from the imposition of income taxes by the source country, provided the licensor has no permanent establishment in the source country. "Royalties" for this purpose include

(a) copyrights, artistic or scientific works, patents, designs, plans, secret processes or formulas, trademarks or (b) information concerning industrial, commercial or scientific knowledge, experience or skill.

Some Current Developments

There are some other developments and projects of general interest which will have the effect of assisting the prospective international licensor.

- One problem area is patents. The very large increase in applications is taxing existing facilities and causing what has been called an "international patent crisis." As a result, countries having an examination system have been confronted with large backlogs of patent applications. Duplication of effort contributes heavily to these backlogs since about half of all applications filed are duplicates of applications filed elsewhere. This situation is one of real gravity because U.S. persons and firms file more patent applications abroad than nationals of any other country. The problem is further aggravated by differing national laws and procedures.

To meet this problem the U.S. Patent Office is working with other countries to simplify and unify the patent application formalities prescribed by national patent laws, to achieve a uniform system of patent classification, and to agree on certain basic principles of patent laws.

A Patent Cooperation Treaty (PCT), adopted in June 1970, by the United States and about 20 countries, would simplify international filing procedures by allowing a patent applicant to file one application at a central source. Such a filing would have the effect of a filing in every member country where he desires protection. The Treaty also calls for centralized patent search and examination procedures and allows a patent applicant 20 months, instead of the more typical 12-month period, in which to complete his application documents. The PCT will enter into force when ratified by eight countries, four of which must have major patent activity. However, the United States cannot deposit its instrument of ratification until implementing legislation is enacted.

- Consideration is also being given to U.S. participation in an international trademark convention. This would make it possible to centralize protection of trademarks in an international registration. One registration would suffice for all the member countries. The considerable saving in time and money is indicated by the fact that there are 150 independent trademark jurisdictions throughout the world, according to the tabulation of the U.S. Trademark Association.

In June 1973, the United States participated in a negotiating conference which adopted a new Trademark Registration Treaty (TRT) designed to simplify international trademark filing and lower costs. The TRT provides that for a single fee a trademark application can be filed with the World Intellectual Property Organization in Geneva. The filing of a TRT application will have the effect of a filing in each country designated thereon by the applicant. The mark, after filing, will then be

published and circulated by WIPO to member countries whereupon each country designated by the applicant has 15 months within which to refuse registration under its national law. If no timely refusal is indicated by a designated member country, the mark is deemed registered there. The TRT is not yet in force.

- On December 3, 1968, the United States deposited instruments of accession to five international customs conventions. These conventions to which the Senate gave its advice and consent to U.S. accession on March 1, 1967, are as follows: 1) Customs Convention regarding ECS Carnets for Commercial Samples; 2) Customs Convention on the ATA Carnet for the Temporary Admission of Goods; 3) Customs Convention on the International Transport of Goods under Cover of TIR Carnets; 4) Customs Convention on Containers; and 5) Customs Convention on the Temporary Importation of Professional Equipment.

Together, these conventions facilitate the temporary, duty-free entry into member countries of a wide variety of articles, and ease the customs clearance procedure for goods in transit. Each of the conventions is in force with respect to all of the major trading countries of Europe as well as several other countries. U.S. adherence to the international carnet system is helpful to firms which need temporary duty-free entry privileges in connection with their licensing activities.

- Another measure helpful to licensing is the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. This convention is designed to facilitate the recognition and enforcement by foreign courts of arbitral awards granted in the United States, as well as similar action by our courts with respect to foreign arbitral awards. U.S. adherence encourages further use of arbitration by American firms in their foreign sales, investment and licensing activities.

- Export licensing controls apply to the export of technical data. There are now two general licenses. General license GTDA authorizes the export to all destinations of 1) data that have been made generally available to the public in any form; 2) scientific or educational data not directly and significantly related to design or production; 3) data contained in an application for the foreign filing of a patent, provided that the patent application has been filed abroad in an "eligible publication country." A second general license designated GTDR authorizes the export of technical data not exportable under the provisions of general license GTDA subject to specific restrictions depending on the destination. Exports that do not meet the conditions of either general license GTDA or GTDR, require a validated license.

Licensing relationships often involve or lead to joint business ventures. Such ventures include any business activity where management is shared by two or more collaborating firms.

During the past 15 years the number of joint ventures has sharply accelerated and they have become an important part of the international business scene. Joint ventures are to be found in the oil consortiums, construction projects, companies exploiting basic metals and in manufacturing.

As in the case of licensing, one of the strongest appeals of joint ventures is that they substantially reduce, by the amount of the partners' contributions to the venture, the political and economic risks that are the principal obstacles to direct foreign investment. The presence of a local partner not only guards against government encroachment or outright expropriation but also helps to protect the venture against the nationalistic feelings existing in many countries, which often lead to restrictions and discrimination against foreign investors.

According to a survey made by the National Industrial Conference Board there are several psychological and technical advantages to an international joint venture. There is a valuable pooling of resources, ability, and experience between local and foreign partners. Together the partners supply capital that either one alone would not want to risk or could not raise. Local partners contribute knowledge of local management methods, customs, laws and business practices, and provide access to customers and labor markets in the area.

Joint business ventures are the preferred form of doing business in the eyes of many less developed countries. They look to the foreign partner to bring needed technology and capital to build basic industry and supply needed services, as well as to expand exports. At the same time joint ventures give local businessmen the opportunity to maintain some share in the profits and in the management of enterprises established locally.

The primary objection to joint ventures raised by executives who prefer wholly owned enterprises is that it involves loss of freedom of action in production and marketing operations. Shared ownership means shared management and profit. Partners must be convinced that a change is necessary before it can be done.

Difficult decisions confront corporate managers in considering joint venture opportunities. The main issue largely centers on the matter of control. If assured control is desired it can be achieved only through ownership of a majority of the voting stock of the joint enterprise. Control is particularly important in the cases of dividend policy, recapitalization, major expansion, borrowing money, selection of management, acquisitions and dissolution. Degree of control needed for a given action varies, of course, among jurisdictions.

Dividend policy in particular is a matter on which joint-venturers can easily get at loggerheads. This is particularly true if one party is a corporation and its partners are individual investors. The corporation would probably favor a policy of building the business from

retained earnings. The partners, on the other hand, would frequently have as their chief interest maximum, immediate dividends.

American companies also have to consider nowadays the possibilities of joint ventures with a foreign government as a partner. This sort of relationship imposes an entirely new set of conditions with which most U.S. industry is unfamiliar. Generally speaking it is not an arrangement which companies would select if they had any other choice. The increased use of state-trading entities in certain countries, however, probably indicates that this type of joint venture will be the prevailing vehicle for some countries and that failure to accommodate to it may involve losing the market. This type of venture will be found in some Soviet bloc countries, less developed countries, and in even a few countries of Western Europe. The natural hesitancy of U.S. firms to become involved in this type of arrangement is not fully shared by Western European firms, which have branched out into bloc countries via the joint venture route.

Acquisition is probably favored by most companies as a better means of obtaining a fair share of a market. The acquired company probably has a distribution network in the country and in export markets. Here some caution is indicated since in many countries difficulties and expenses may be met if it becomes necessary to terminate distributorships.

One U.S. manufacturer with abundant experience on the question says there are basically three instances where joint ventures seem appropriate.

- When the company lacks capital or personnel capabilities to expand its international activities otherwise
- When the company seeks to enter a market where wholly owned activities are prohibited, and
- Where it may enable the company to utilize skills of a local partner

Some U.S. enterprises have adopted a policy of operating in foreign countries only on a joint venture basis. They have found that for them the best method of operation is to share equity ownership and control with nationals of the country. Generally speaking the trend toward joint ventures is desirable as long as it reflects the voluntary decision of the business enterprise concerned. However, the subject of joint ventures is so complex and the problems are so variable that generalized opinions are very risky. The decision depends on the facts of each case and is up to the individual firm to decide one way or the other.

For more data

U.S. firms considering the possibility of licensing or joint ventures abroad may find a variety of reference works of interest. Among such publications are:

Appraising Foreign Licensing Performance, by End Baird Lovell, *Studies in Business Policy* #128, National Industrial Conference Board, New York, 1969. 106 pp. \$3.50 to NICB members.

Practical Patent Licensing, by Albert S. Davis, Jr., Practising Law Institute, (Vol. I) New York, 1966. 311 pp. \$15.00; (Vol. II) 1969, 247 pp. \$25.00.

International Licensing Agreements, by Gotz M. Polzien and George B. Bronfen, Bobbs-Merrill, Indianapolis, 1965. 426 pp., \$22.50, 2nd Ed., 1973, \$35.

Industrial Property Rights Overseas, American Management Association, New York, 1964. 40 pp. \$1.50 to AMA members.

Trademark Licensing: Domestic-Foreign. The United States Trademark Association, New York, 1962. 90 pp. \$2.

Forms and Agreements on Intellectual Property and International Licensing, by L.W. Melville. Clark Boardman Co., Ltd., New York, 1972, 400 pp loose leaf volume, \$30.

Licensing in Foreign and Domestic Operations, by Lawrence J. Eckstrom, Revised third edition (1974) Clark Boardman Co., Ltd. - Sage Hill Publishers, Inc., New York, volumes 1 and 2, \$65.

International Trademark Protection, by Eric D. Offner. Fieldston Press, New York, 1965. 285 pp. \$20.

Foreign Licensing Agreements: I. Evaluation and Planning, *Studies in Business Policy* #96, National Industrial Conference Board, New York, 1968. 88 pp. \$3 to NICB members.

Foreign Licensing Agreements: II. Contract Negotiation and Administration, *Studies in Business Policy* #91, National Industrial Conference Board, New York, 1969. 96 pp. \$4 to NICB members.

Joint Ventures with Foreign Partners, National Industrial Conference Board, New York, 1966. 92 pp. \$3 to NICB members.

Joint International Business Ventures, by W.G. Friedman (ed.) and George Kalmanoff, (ed.) Columbia University Press, New York, 558 pp. 1961, \$15.

THE ROLE OF GOVERNMENT IN JOINT VENTURES AND LICENSING

*By VINCENT TRAVAGLINI, Director
Office of International Finance and Investment*

Most countries have favorable attitudes toward joint business ventures and welcome the receipt of technology and know-how through licensing arrangements. This is likely to hold true regardless of any reservations they may have about foreign ownership of local business through direct subsidiary operations of foreign companies.

Many countries have gone so far as to provide special benefits by law to certain types of foreign investment. The laws usually cover such matters as provisions relating to entry and approval procedures, assurance against expropriation, rights to transfer profits and capital, exemptions from taxes, and remission of certain import duties.

At the same time there is a growing disposition abroad to subject foreign entry to scrutiny in various ways. There may be requirements that prior approval be obtained for the project, either as a condition for starting up or in order to assure the parties that their foreign exchange needs will be satisfied. Restrictions on the local partner are apt to be examined carefully, especially restraints on exports. Some governments interfere in the setting of royalty rates while others are sensitive to possible adverse effects on domestic competitors.

Americans doing business abroad must of course take account of our laws. These do not indicate any bias either for or against joint ventures or licensing. On the whole they leave the choice of mode of operation abroad to the business judgment of the parties concerned, absent adverse effects on U.S. domestic competition or foreign trade.

Aside from those governing entry, governmental rules of primary interest to firms investing or licensing abroad are those relating to organizational forms, taxation, industrial property rights and business practices. In addition one should be aware of U.S. controls on the export of goods and technical data, as well as government-administered guarantees and informational services.

JOINT VENTURES

Organization

Ventures involving local interest and foreign investors are usually organized under one of the forms of business organization available under the law of the country where the business will operate. There are many

forms of business organization, of course, in the different countries. They vary in nature depending on local usage and on whether the country has British common law origins or civil law.

Generally speaking, any of the available business forms may be suitable as a vehicle for a joint venture. However, the civil law corporation or English law public company is the most widely used form for productive enterprises organized as joint ventures. Its flexibility and adaptability to effective centralized management generally make it the most advantageous form of organization for large-scale joint ventures.

Another factor which may influence the use of the local law equivalent of the corporation is that the laws relating to matters such as minority stockholders, preemptive rights and rights and duties of directors are more apt to be established. Also, if there is to be public equity participation, the corporation is the only practicable alternative because it is usually the only company form in which the shares are readily transferable.

If equity participations are to be closely held the limited liability company, a business form peculiar to civil law systems, is suitable for joint ventures of modest size. Like the corporation this type affords limited liability and continuity of existence. Unlike the corporation the members' shares can be transferred to a nonmember only after consent and after other members have declined to exercise a prior option to purchase. The limited liability company is usually subject to less regulation than the corporation and may also bear a lower tax burden.

Participants may wish to organize the enterprise under the law of a second country, and operate the joint venture as a branch. Reasons for doing so include a desire to minimize taxes, or to withdraw profits to a second country where they may be accumulated free of danger of currency depreciation, political instability or exchange restrictions. Despite its attractions this form will rarely be used in joint ventures intended to operate in less developed countries, mainly because tax holidays and other investment incentives may not be available if the proposal involves the organization of an enterprise in a foreign country to which profits can be withdrawn.

Tax Aspects

The place where the joint venture is incorporated is often crucial for tax purposes. Corporations created in

the United States are taxed here on their worldwide income. Corporations created in a foreign land are generally taxed here only on income derived from sources in the United States.

Organizing as a branch of a U.S. company would subject the joint venture to U.S. tax. If the venture is to be in Latin America, there is a 14 percentage point income tax rate advantage in forming a Western Hemisphere Trade Corporation (WHITC). For example, WHITCs are used by many manufacturers to carry on their operations in Canada and South America.

Foreign corporations have often been used in lieu of WHITCs with the result that no U.S. tax is payable, instead of merely the 14 percentage point reduction in tax. U.S. tax on foreign source income earned by foreign corporations is deferred or postponed until the foreign corporation pays dividends to U.S. shareholders. There is a very important exception to this deferral rule. The Tax Revision Act of 1962, which completely revamped the foreign income provisions of our Tax Code, made certain income of U.S. controlled foreign corporations immediately subject to U.S. tax. This legislation was aimed principally at the use of foreign base companies formed in low-tax jurisdictions to avoid paying taxes on dividend, interest, royalty and other receipts.

The foreign corporation in most cases will pay some foreign income tax. This payment may be credited against U.S. income tax. If the foreign tax rate is lower than the U.S. rate, a tax is paid to the United States on foreign source income at a rate equal to the excess of the U.S. over the foreign rate. When the foreign rate equals or exceeds the U.S. rate, the credit cancels U.S. tax on foreign source income. The policy behind the foreign tax credit is to provide neutrality as between domestic and foreign economic activity.

The foreign tax credit applies only against foreign income taxes which have been paid. Suppose our joint venture is operating in a country which allows it a 5-year tax holiday? In that case the joint venture will pay full U.S. income tax at such time as it distributes dividends. The tax holiday will then have been nullified to a large extent.

This circumstance causes loud complaints from capital-importing countries. Tax incentives designed to attract new industries, especially those that will manufacture export products or replace imports, are quite common in the less developed areas. At one time the United States included in its tax treaties a so-called "tax-sparing" provision which in effect gave recognition to LDC investment incentives by granting U.S. tax credits for the foreign tax which would have been paid. However, the U.S. Senate refused confirmation to treaties containing such provisions and their use was discontinued.

In view of the advantages of foreign corporations not subject to U.S. tax, why are they not used for all foreign operations? The answer is that there are various restrictions on them which may deter their use. One important deterrent is the provision in our Tax Code limiting depletion allowances to domestic corporations. For this reason, the oil and aluminum companies and other industries engaged in extractive activities use

Western Hemisphere Trade Corporations or ordinary domestic U.S. corporations abroad.

Another reason why foreign corporations might not be used is that such corporations are not eligible for the tax-free organization, reorganization and liquidation provisions of the Tax Code without a prior ruling from the Internal Revenue Service to the effect that such a transaction does not have tax avoidance as one of its principal purposes. Use of a domestic corporation to engage in foreign activities allows them to be formed and then liquidated back into a parent corporation or merged with other domestic corporations on a tax-free basis without having to obtain such a ruling.

Antitrust Aspects

There are very few decisions on the antitrust consequences of international joint business ventures. Those cases which have arisen concern combinations of major American and European firms who were actual or potential competitors in one or more foreign markets. The landmark cases involve giant corporations with worldwide operations and generally the circumstances involve arrangements between such companies and their foreign counterparts.

It is clear that the Sherman Act includes foreign commerce. The language is specific "every contract, combination or conspiracy in restraint of trade or commerce . . . with foreign nations. . . is illegal. This prohibition has been applied to joint ventures between American and foreign firms. For example, the arrangement between the Dupont Company (U.S.) and the Imperial Chemical Industries Company (U.K.) to form a jointly owned Canadian subsidiary for the purpose of selling in Canada, was held by a U.S. court to be an attempt to divide the Canadian market. The decision was that one of the two companies must divest itself of its holding in the joint Canadian company. (100 F. Supp. 514-1951)

Possibly the most well known joint venture case resulting in a finding of illegality under the Sherman Act was *U.S. v. Timken*, 341 U.S. 593 (1951). Here an agreement not to compete between an American and two foreign companies interlocked by stock ownership was held illegal and not a legitimate "joint venture" as contended by the defendants. The defense was that the companies were really a part of a single corporate family and therefore this was not the same as a division of markets between independent enterprises.

Another type of joint venture situation was involved in *U.S. v. Minnesota Mining and Manufacturing Co.*, 92 F. Supp. 947 (1950). Here U.S. competitors established joint factories abroad with an understanding that the participants would sell through these joint foreign factories rather than export from the U.S. The court considered this an unreasonable restraint of the foreign trade of the U.S. and required divestiture of stock in each foreign factory by all except one company.

A joint venture, or the ownership and operation of a joint company, even among competitors, is not unlawful *per se*, but becomes unlawful if its purpose and effect is

to restrain or monopolize interstate or foreign trade. A joint company among competitors will be closely scrutinized from an antitrust standpoint just as will any agreement or cooperation between competitors. However, it is not to be condemned on this fact alone.

Joint ventures which include marketing in their activities are probably the most antitrust vulnerable. W. L. Fagale (*Foreign Commerce and The Antitrust Laws*, Little Brown, 2nd edition, 1973, p. 366) states, "the cases seem to teach that joint marketing ventures between actual or even potential competitors will almost surely run into antitrust trouble." In this connection, the courts have made little distinction between actual and potential competitors insofar as agreements not to compete are concerned.

Joint manufacturing abroad, in itself, may not directly and substantially affect U.S. commerce. Even where U.S. commerce is affected, mere joint production not involving monopolization or other unlawful restraints of U.S. foreign trade is not unreasonable *per se*. However, joint production may lead to joint marketing and, as indicated, joint marketing between actual or potential competitors is likely to be found illegal. Where the competitors have a joint venture to obtain raw materials which they themselves use, the situation may be different. There may be sound economic reasons for joint production, such as sharing the high costs and unusual risks of production of raw materials in a foreign country.

No antitrust difficulties should arise in forming a new foreign company in cooperation with local foreign investors who, for example, aid in financing a venture in return for a stock interest. Obviously if the local partner is well established in the same business the antitrust risk increases. In that case the American partner might cease or curtail exports from the United States which are competitive with the joint company. Other U.S. exporters would find that they were up against a combination of two erstwhile competitors in the foreign market. And the foreign partner would be under some compulsion to restrict exports to the United States or to appoint the American company as its exclusive outlet.

Perhaps the conclusion reached by the Attorney General's Committee to Study the Antitrust Laws is the best available guide: Joint manufacturing or distributive activities abroad, even between competitors, should be deemed legal (1) if they involve no restrictions on U.S. imports and exports, and (2) if they do not unreasonably restrain competition in the American domestic market.

Joint ventures abroad must also pass muster under any foreign antitrust laws which are applicable. Until recently challenges on antitrust grounds to American acquisitions of or mergers with foreign companies were non-existent. But this situation is changing quickly and some observers have written that in 10 to 15 years antitrust conditions in Europe will be similar to those in the United States. The first signs of change in Europe came in 1969 when the Commission of the European Communities (EC) challenged Continental Can Company's acquisition of various European packaging manufacturers.

In November 1973 the EC's Court of Justice held that article 86 of the Rome Treaty, which prohibits "an

abuse of a dominant position," could be used to challenge acquisitions and mergers in the Common Market. This point was previously in doubt and is far more significant for antitrust enforcement in Europe than the Court's decision that the facts in the case did not show that Continental Can had violated Article 86. The Commission appears to be relying on this interpretation in its recent investigations of major international oil company and IBM operations in Europe.

Investment Guarantees

The U.S. Government provides guarantees against some of the political risks and, in certain cases, a portion of the business risks, relating to new investment in about 80 of less developed countries. The political risks covered are: currency inconvertibility, loss due to expropriation, and damage attributable to war, revolution or insurrection.

To be eligible for such insurance and guarantees, the investment must be made by a citizen of the United States or a corporation organized under U.S. laws and substantially owned by a U.S. citizen, or a foreign corporation which is wholly owned by U.S. interest. The program is run by the Overseas Private Investment Organization (OPIC), an independent agency in the executive branch. Congress recently extended the agency's authority until December 31, 1977. One of OPIC's principal goals is to encourage private investments responsive to local needs in less developed friendly countries. More information on investment guarantees is available from OPIC, 1129 20th Street, N.W., Washington, D.C. 20527.

Investment Controls

The U.S. Government has never attempted to regulate overseas joint ventures as such, but in the recent past it has put restrictions on the U.S. financing of foreign direct investments. This Foreign Direct Investment Program, administered by the U.S. Department of Commerce, was discontinued in 1974.

LICENSING

Patents, Trademarks and Know-how

The rights granted in foreign licensing agreements are patent rights, trademark rights and know-how, either alone or in combination. The licensor will therefore want to take full advantage of any protection provided by law to safeguard these rights.

Statutes in almost every country of the world provide for registering patents and trademarks. There is no similar registration for unpatented technology, trade secrets or know-how, although these rights can often be protected contractually, or under statutes relating to trade secrets or unfair competition.

It is important to note that ownership or control of a U.S. patent does not automatically give protection in other countries or provide the basis for a license grant to

a foreign company. At present foreign patent rights are obtainable only by filing a separate application in each country in which protection is wanted. Under the International Convention for the Protection of Industrial Property, one who files an original patent claim in a member country has a priority right of application for the corresponding patent right in other member countries for a period of 1 year following the original filing. The number of countries which belong to the Convention has been rising steadily and now stands at 85. This includes all of the industrialized nations. The Soviet Union joined in 1965 and most other European communist countries are also members.

Acquisition of patent rights on a multi-country basis is complicated and is both expensive and time consuming. Any firm with an international patenting program can testify as to the high cost. There are filing fees, registration fees and the fees of foreign patent agents to handle the prosecution. Foreign patent systems have an extra cost feature not present in the United States. Most countries require payment of maintenance fees periodically, otherwise the patent lapses. These fees become quite high in the later years of the patent. In view of this, deciding which countries to file for protection can be difficult.

Like patent owners, the United States and other governments are greatly concerned about the international patent system. The ever-increasing number of foreign patent applications is over-burdening patent offices throughout the world, with marked delays in patent issuance. In 1973, for example, the U.S. Patent and Trademark Office received 104,000 applications for patents. Of these about 37,000 were filed by inventors residing outside the U.S. Comparing 1973 with 1963 we find that filings by foreign applicants have about doubled. Other countries reveal the same trend.

To meet this problem a diplomatic conference, held in Washington, D.C. May 25-June 19, 1970, agreed on a Patent Cooperation Treaty (PCT). Its purpose is to simplify the filing of patent applications on the same invention in a number of different countries through a central filing procedure and use of a standardized patent application form.

A principal feature of the treaty is a procedure permitting an applicant to file an international application -- in the English language in the United States. The application will have a standard format acceptable to all member nations and will include designation of one or more member nations in which the applicant desires protection. At the time of filing the international application will be subject to an international fee (to be determined) but payment of national fees and translation expenses will be delayed until completion of international processing. An international search report will then be prepared, a copy of which will be furnished to the applicant, and a copy to each state designated by him. National processing, examination, and issuing of patents will then be up to each nation under its national patent law.

Before the PCT can become effective it must be ratified by seventy countries, of whom four must be major nations with regard to patent activity.

Americans should be alert to the differences between foreign patent systems and their own. One recent innovation in a number of countries is a system of deferred examination under which an applicant is given a period of say, 5 years to decide whether he wishes to prosecute his application, in the meantime full examination is deferred. Maintenance fees have already been mentioned as an added cost. It is vital that they be paid when due, otherwise patent rights may lapse. Most U.S. companies utilize foreign patent agents to keep track of and make due payments. However, this is costly and agents have been known to fail to make a required payment although instructed to do so. The U.S. Department of Commerce has prepared a report on these requirements in selected foreign countries. (See article entitled "Foreign Rules on Need for Agents to Pay Patent and Trademark Maintenance Fees.")

Another significant feature of many patent laws abroad is compulsory working. The most common type of law is that which provides for compulsory licensing of patents which have not been commercially used. The rule of the International Convention is that a patent shall not be subject to compulsory licensing before the expiration of 4 years from the date of filing the patent application or 3 years from the date of the grant, whichever is later. The patent may be subject to forfeiture after a further 2 year period, if not properly worked.

Like patents, trademarks are a limited monopoly right granted by a government within its own area. A U.S. company acquires foreign trademark rights by use or registration in each country and retains these rights by observing the local requirements with respect to renewals, fees, supervision and use of the registered marks.

Unlike patents, which are limited to a fixed term of years and then expire, trademarks may be renewed. Trade-marks, therefore, have a permanency denied to patent rights. It should be noted that in most countries the first person who applies for a trademark is entitled to a registration and to exclusive property rights in the mark, i.e., rights depend on registration rather than use of the mark as in the United States. In certain countries having "Registered User" requirements, a trademark licensee must register as such with the government. Failure to do so can result in cancellation of the mark.

Trademark registration abroad is facilitated and protected by the International Convention in much the same manner as patent applications but the priority right is limited to 6 months. Only by timely and widespread registration can a company be sure of having the right to use and to keep others from using its trademark in foreign markets.

As in the case of patents, the owner can assign or sell his trademark or can license its use to others. However, in the case of licensing, he must in most countries undertake a supervisory responsibility beyond that required in patent licensing.

Unlike the present situation in the patent field, it is possible to centralize protection in an international trademark registration under a treaty known as the Madrid Arrangement. About 21 countries belong, al-

though the United States is not a member. Under this Arrangement the trademark owner must register his mark in the member country in which he is domiciled. On the basis of this registration, the International Bureau in Geneva, Switzerland issues an international registration. This is then deposited by the Bureau in each member country which processes it in accordance with local law. A U.S. trademark owner can take advantage of this if he has a bonafide industrial or commercial establishment in a member country.

The basic advantage of international trademark registration is that it saves money. The fee for international registration is considerably less than the total of the fees due in each country for separate registrations.

The United States and several other countries have negotiated a new central filing regime for trademarks, called the Trademark Registration Treaty (TRT). This treaty eliminates certain features of the Madrid Agreement which are objectionable to the United States, primarily that which requires an applicant to have his mark registered in his home country before the mark can be applied for as an international registration. The TRT has not yet been ratified by the United States or any other country.

While know-how has a limited recognition as a legal property right, it does not have statutory protection like that for patents and trademarks. So in granting a foreign company the right to use unpatented know-how, the licensor is quite dependent on good faith and contractual safeguards for the protection of his ownership rights.

Antitrust and Patents

The simple grant of a patent license raises no antitrust questions. Whether the limitations included in the license as to the nature and scope of the rights granted are permissible depends essentially on whether they constitute restraint on competition outside the scope of the patent grant.

Among the limitations in patent licenses which have raised antitrust questions are restrictions on price, field of use, territory, resale, tie-in requirements and patent pools.

In the 1926 case of *U.S. v. General Electric Co.*, 272 U.S. 476, the Supreme Court held that a single company engaged in manufacturing and selling a patented product may fix the prices at which a competitor licensee may sell. G.E. licensed Westinghouse to manufacture and sell patented lamps at prices fixed by G.E. on its own sales. The Supreme Court upheld this price limitation as a condition of sale reasonably adapted to secure pecuniary reward for the patentee.

But this doctrine of the G.E. case does not legitimize all contracts of a patentee designed to fix prices under a license. Later court decisions have narrowly limited the application of this rule and have held: (1) the sale of a patented article puts control of the purchaser's resale price beyond the patentee's power; (2) the licensor cannot fix prices on unpatented products resulting from the operation of a patented process

or of a patented machine, or where only part of the product is covered by patent claims; (3) the licensor cannot fix the price of an unpatented component of a patented combination; (4) a group of companies in the same industry cannot join together under patents and fix industry-wide prices.

The Supreme Court has taken a clean-cut stand on price control agreement of unpatented goods. Such agreements are illegal restraints of trade under the Sherman Act, regardless of the reasonableness of their effect on prices (*U.S. v. Socony-Vacuum Oil Co.*, 310 U.S. 150-1940).

It has also been held that a patentee may license the manufacture or use of a patented product within a limited field or within a fixed territory in *General Talking Pictures Corp. v. Western Electric Co.* 305 U.S. 124 (1938). Western Electric licensed the manufacture and sale of patented vacuum tube amplifiers, the license extending only to amplifiers for use in the noncommercial field. One of the licensees made amplifiers for commercial use and sold them to the defendant, who bought with knowledge that they were made and sold in violation of the license. The Court found infringement in the manufacture and use outside the field specified in the license.

In *Brownell v. Ketchum Wire and Mfg. Co.*, 211 F.2d 121 (1954) the Court ruled that a territorially restricted patent license within the United States was valid. However, it is generally agreed that territorial restrictions extending beyond the geographical limits of the country cannot be justified.

Tying clauses in patent licenses which require the licensee to purchase from the patentee unpatented or patented articles not within the scope of the licensed patent have been condemned. Conditioning the grant of a patent license upon payment of royalties on unpatented products may be misuse of the patent and a violation of the Sherman Act unless the royalty agreement was made for the parties' convenience and not coerced by the patentee. A royalty agreement based on the licensee's total sales does not give rise to any inference of misuse. *Automatic Radio Mfg. Co. v. Hazeltine Research Inc.*, 339 U.S. 827 (1950).

Finally, the Courts have adopted the rule that the first authorized sale of a patented article exhausts the patent monopoly, and the patent cannot justify further restrictions on the use of the article by the purchaser. As a result, Courts have invalidated limitations as to resale prices, or tie-in clauses, or restrictions on exports.

A current case of widespread interest was filed by the Department of Justice on April 22, 1970, charging Westinghouse Electric Corporation and two Japanese companies with conspiring to restrain trade between the United States and Japan through restrictive patent and technology licensing agreements. As of January, 1975 the suit has not gone to trial. The suit charges that:

- Westinghouse and Mitsubishi of Japan have agreed not to sell the licensed products in each other's home country regardless of whether such products are patented or not.

- Westinghouse required the Japanese companies to accept a broader license than they desired, thus extending the territorial restrictions to additional products.

-The companies agreed to make royalty payments to each other, irrespective of whether the products on which royalties were payable were patented or were produced by using the licensed technology.

The remedy sought is termination of the agreements and a requirement that the companies license each other nonexclusively in a contract covering all their present and future patents with no territorial limitation "for a reasonable period of time."

Many U.S. licensors of patents and know-how to overseas companies are concerned over the Westinghouse suit. They foresee a flood of import competition from foreign licensees possessing highly favorable cost advantages. Also they fear loss of third country markets to licensees.

This case raises for judicial review a consideration which is present in virtually every licensing contract—whether the licensee is to be permitted to sell in the United States. In the opinion of many such a restriction is essential. Licensing a joint venture or a potential competitor to undertake local manufacture may not make good business sense if it results in the establishment of a competitor in the U.S. market.

The Department of Justice has been giving increasing attention to patent agreements and has formed a Patent Unit to handle litigation involving restrictive practices in licensing of patents and technology. The legality of a number of patent and know-how licensing practices has been challenged, including agreements not to contest the validity of patents, agreements dividing fields of use and agreements that require a grant back of patent ownership on improvements. The latter has been alleged to reduce the incentive of the licensees to make improvements or to invest around the licensed patent.

Licensing arrangements may also fall within the scope of the EC antitrust rules, or the national laws of other countries. The EC rules are based on Article 85 of the Rome Treaty. That article prohibits any agreements likely to adversely affect trade between member states. In particular, price-fixing agreements, territorial restrictions and *de-m* agreements, among others, are null and void. However, there is an exemption, under paragraph 3 of Art. 85, of agreements which contribute to the improvement of the production or distribution of goods.

As of January 1, 1974, about 35,000 agreements had been decided upon by the authorities in Brussels pursuant to the requirement that all such agreements be registered. Of these registrations, somewhat more than 5,000 were licensing agreements, but the exact number is not available. At the same time, about 4,000 notifications were awaiting decision, half of which were notifications for licensing agreements. For a time it appeared that the EC Commission would issue group exemptions for specified types of licenses (as was done for specified exclusive dealership agreements). However, it now seems that each license agreement will be separately reviewed and an individual decision made in each case.

There is language in Regulation No. 17 of the Council of Ministers, of March 13, 1962, which was the first regulation issued under the antitrust articles, that at first glance might seem to exempt most license agreements. Article 4(2)(ii)(b) provides for exemption where:

(a) only two enterprises take part and the sole effect of these arrangements is . . .

(b) to impose restraints on the rights of any person acquiring or using industrial property rights—particularly patents, utility models, registered designs or trademarks—on the rights of any person entitled, under a contract, to acquire or use manufacturing processes or know-how relating to the utilization or application of industrial techniques.

This language has been taken to mean that there is no exemption if the restrictions go beyond the scope of the patent grant or the trademark right or the rights in the know-how. Such restraints as the following would presumably go beyond the exemption:

- commitments extending beyond the period of validity of the property right,
- licensee may not acquire, manufacture or sell competing products,
- licensee may not export to another member country,
- licensee undertakes to impose competitive restriction on his customers.

Under present circumstances it is desirable to notify the Commission of any agreement containing such restrictions. By doing so one may succeed in obtaining a declaration that the license qualifies under the exemption of Art. 85(3). Not doing so exposes the licensor to the risk that the agreement may be declared null and void. It may be asked whether an American company may ignore the regulations since, as a foreign company, it is not under the jurisdiction of the Commission. However, the Commission may impose fines on both parties and take steps to satisfy the fine against assets of the foreign enterprise within the EC. They might also levy against existing industrial property rights.

The notification task should not be left to the European licensee. That party might not make the best possible case to secure an exemption. He would also often have an adverse interest. A declaration of invalidity could relieve the licensee of his obligation to continue paying royalties.

Certain clauses in patent license agreements are specified, in the opinion of the Commission, in a Notice issued December 24, 1962, as "not prohibited by Article 85":

1. Restrictions on field of use (manufacture, selling).
2. Restricting the manufacture of a patented article or the working of a patented process to certain technical applications.
3. Restricting the quantity of articles to be manufactured or the number of occasions of working the invention or process.
4. Limiting the license in time (shorter term than patent), in area (part of territory covered by patent or specified place of business), or in respect of persons (restriction on licensee's power of assignment or sub-license).

5. Requiring the licensee to mention the patent on the article.
6. Imposition on the licensee of standards of quality, or the procurement of certain products, parts or raw materials, essential to the proper technical working of the patent.
7. Undertakings by the grantor not to license anyone else, or not to work the patent himself.

According to the Notice, contracts containing no other restrictions than those mentioned are not prohibited. They need not be notified to the Commission and it is not necessary to obtain a clearance for such agreements.

Few less developed countries (LDC's) have antitrust laws or enforcement machinery. They desire to foster and induce the inward transfer of technology would in any event cause them to be extremely loathe to interfere in licensing arrangements. This attitude, however, is changing. LDC governments are taking an increasingly questioning attitude toward restrictions which hamper their trade and industry.

The United Nations Conference on Trade and Development (UNCTAD) has ordered a study of Restrictive Business Practices Affecting Developing Countries. It has asked member countries to submit copies of any contracts and agreements which contain restrictive clauses. This covers not only patent licenses but also joint ventures, and focuses on restrictions on exports, selling quotas, requirements for sales through designated agents, restrictions on export prices, international allocation of markets, controls over distributors and certification requirements. It is too early to say what this study portends but it clearly evidences deep concern by the LDC's that business arrangements should not be so restrictive as to impede LDC trade and development.

The acceptability of a license or joint venture under U.S. law can be tested by submitting a request to the Department of Justice. Under the Business Review Procedure, businessmen in doubt about the legality of proposed transactions may submit them to the Antitrust Division for review and for a statement of the Department's enforcement intention. The Review Procedure does not grant absolute clearance or immunity from further Court action. However, the Department has never brought a criminal action in any case where it was requested for an advisory opinion, where there was full disclosure of information at the time the request was submitted.

Tax Aspects of Licensing

Income from licensing patents, trademarks, copyrights and know-how is, like all income of an American corporation, taxable under the Internal Revenue Code irrespective of its source. Generally, income from a direct license is taxed at ordinary tax rates, with a credit against the U.S. tax for the foreign income tax which is withheld on payments by the licensee.

Capital gains treatment may be obtained for licensing income under certain circumstances. If all substantial rights in a patent are transferred the trans-

action may qualify as a sale or exchange. This necessitates either transfer of legal title in the patent with registration of the transferee as patent owner, or granting an exclusive license within a particular area for the life of the patent. Sales of trademarks and know-how may also be made by assignment of title or granting an exclusive license in a limited geographic area for a perpetual period. A sale of know-how presents additional difficulties, its nature as "property" must be clearly established and the licensee should receive the right to prevent its unauthorized disclosure.

Whether all substantial rights have been transferred in a given transaction is a frequently disputed point. Retaining such valuable rights as the unconditional right of the licensor or transferor to terminate at will or upon giving notice makes capital gain treatment unavailable. But it is permissible for the licensor to retain the power to terminate the agreement upon the occurrence of an event not within his control.

The exchange of patents, trademarks and know-how for shares in a foreign company constitutes a taxable exchange of a capital asset. This type of transfer has been used increasingly, particularly when the transferee country taxes dividends at a lower rate than royalties.

The exchange of patents, trademarks and know-how for shares in a foreign corporation may be tax-free for the licensor if an advance ruling can be obtained from the Internal Revenue Service that the proposed transfer is not for the principal purpose of avoiding Federal Income Tax. The Internal Revenue Service has issued guidelines to use in securing such advance rulings (Rev. Proc. 68-23, Internal Revenue Bulletin, May 27, 1968). Among its provisions is a list of conditions where a favorable ruling will not be issued—such as, where it is reasonable to believe the patents, etc. will be licensed after the transfer or where the patents are to be used to manufacture goods for sale or use in the United States.

Prior to the Revenue Act of 1962 it was common practice to transfer patent and know-how rights to a foreign base company, i.e., organized in a low-tax jurisdiction. The base company then carried on licensing operations, paying very nominal taxes on its royalty income.

The 1962 legislation changed this picture in two principal ways: (i) it did away with capital gains licensing between a U.S. company and a controlled foreign corporation so that transfer of patents and know-how to a foreign base company would now be taxed at ordinary income tax rates; (ii) it subjected royalty income of a foreign base company to current U.S. taxation, ending its deferred status.

Licensing may still be carried on through a foreign corporation with tax deferral if an active trade or business such as manufacturing is being conducted. In that case the share of the foreign corporation's total income represented by royalties and other "passive" income (dividends, interest, rents) may not exceed 30%, otherwise such income would become subject to current U.S. tax.

A foreign subsidiary may also be used to advantage to carry on licensing operations in LDC's. The royalties in that case would enjoy tax deferral if invested in LDC's.

Export Controls

The Export Administration Act of 1969 authorizes the President to prohibit or curtail exports of commodities and technical data from the United States. Under this authority the Department administers a control system based on national security, foreign policy and short supply needs in the United States. Most exports to Canada are free of license. Shipments to other destinations require either a validated license for which the exporter must submit a signed application, or a general license. A general license is a broad authorization which requires neither an application by the exporter nor the issuance of a license document by the Department.

There are two general licenses for the export of technical data. General license GTDA (Technical Data Available to All Destinations) authorizes American exporters to transmit to any destination unclassified technical data of a scientific or educational nature. The other general license (GTDR—Technical Data under Restriction) authorizes exports of a broad range of unpublished technical data to free world countries. Such exports are, however, subject to assurances from the foreign importer against the unauthorized use of both the data and its direct product. Aside from data relating to a few highly strategic commodities, most technical data can be exported to free world countries under these general licenses. Generally available published data and scientific and educational data, may also be exported to Eastern European countries under general license. On the other hand, exports of unclassified unpublished technical data requires a validated license to Eastern Europe, Asian Communist areas and Cuba.

GOVERNMENT AIDS AND SERVICES

Department of Commerce

Commerce provides trade lists to help in finding customers, distributors, agents and licensees abroad; world trade directory reports containing basic commercial and financial information on specific foreign firms and individuals; and all kinds of customs, tax, and legal information, including patent and trademark regulations abroad.

Two services are available from the Department of Commerce to help persons or companies find a qualified licensee abroad. If the potential licensor wishes to address his appeal to a wide audience in many countries, the Department will arrange to publish the proposal in *Commercial News*—a monthly publication sent to all Foreign Service Posts. If the American firm can identify three to five countries of particular interest, the Department will request the Foreign Service to canvass the local business community and identify the most promising prospects. For further information write to Foreign Investment Services Staff, Office of Export Development, Room 4021, U.S. Department of Commerce, Washington, D.C. 20230.

The Bureau of International Commerce (BIC) periodically sponsors trade missions to potential foreign markets. The missions are basically selling teams sent out to develop business opportunities. The mission members talk in person with foreign businessmen. They take with them specific business proposals submitted by American firms. The teams include experts in various lines of business and industry. They return with proposals and offers submitted by foreign firms and these are made freely available to the business community. The U.S. Department of Commerce District Offices can help you secure these and other helps to doing business abroad.

Investment Guaranties

Guaranties are issued to cover an investment in the form of a licensing agreement for the use of patents, processes and techniques in exchange for royalty payments. Ordinarily, however, an agreement calling for payments of royalties or fees will not be eligible for guaranties unless the investment is intended to extend for at least 5 years.

Congress specifically included these intangible assets in the investment guaranty program to encourage the spread of advanced technological methods. Trade names, trademarks and goodwill, while often closely associated with the license of patents, processes and techniques, are not eligible for guaranties. The maximum convertibility coverage obtainable under a licensing agreement is the sum of the royalty payments over the life of the contract. The investor must furnish OPIC with a copy of the licensing contract and substantiate both the reasonableness of the royalty rate and the estimate of royalty payments.

FOREIGN RULES ON NEED FOR AGENTS TO PAY PATENTS AND TRADEMARK MAINTENANCE FEES

By JOSEPH M. LIGHTMAN
Foreign Business Practices Division

In response to request from U.S. companies about the necessity of having representatives abroad pay annual patent and trademark fees, the Foreign Business Practices Division, Office of International Finance and Investment, requested American Embassies in 34 countries, comprising major sources of U.S. patent and trademark activity, to survey the situation. Each Embassy was asked to determine if its country of location permitted such fees to be paid directly to the Patent Office (or other appropriate agency) by the foreign patent or trademark owner residing abroad, or by his representative in a third country, or if such country required these payments to be made only through a domestically domiciled agent or representative.

The survey was undertaken in 1971 and, so far as can be determined, no major changes have since occurred in these countries. This article which is based on that survey has been prepared to assist U.S. firms in ascertaining costs of servicing maintenance fee payments once registrations have been obtained.

Most countries, unlike the United States, require patent owners to pay an annual maintenance fee or tax to keep their registrations in force. These payments are on a graduated scale, increasing sharply in the patent's later years. Countries generally do not require yearly payments to keep trademarks in force; fees are required for renewal after first registration, usually for 10- to 20-year periods. Spain and Yugoslavia are exceptions and require certain periodic payments. For purpose of this article, the term "maintenance fee(s)" applies to fees and taxes required to keep a patent or a trademark in force, during the permitted registration period.

In the following countries, such fees may be paid directly by the foreign owner or his representative in a third country: Argentina, Australia, Austria, Belgium, Denmark, Finland, France, German Federal Republic, Iran, India, Israel, Italy, Korea, Mexico, Norway, Pakistan (see explanation below), Philippines, South Africa (see explanation below), Switzerland, Sweden, and the United Kingdom.

In the following countries a local agent or representative is required to make the maintenance fee payments: Brazil, Chile, Czechoslovakia, Greece, Japan, Netherlands, Portugal, Spain, Taiwan, Turkey, USSR, Venezuela, and Yugoslavia.

A number of countries that do not require payments through local residents have noted that, with respect to payment reminders or other correspondence regarding fees, they will not correspond with any foreign addressee, only a local representative. Such countries include Australia, Finland, India, Pakistan, Switzerland, and the United Kingdom. Pakistan authorities note that while legally, direct payments can be made, a local agent will be needed since they will not communicate with anyone else. The Swiss and The Netherlands Patent Offices permit domestic patent agents to have accounts with them from which maintenance fees are debited when due on a client's behalf. In Finland, the Association of Finnish Patent Attorneys will withdraw its members from any patent case where maintenance fee payments are made by the foreign owner directly to the Finnish Board of Patents (Patent Office). In South Africa, while regulations technically permit foreigners to make direct payments, foreign firms must attach certain revenue stamps obtainable only in that country.

The situation for each of the 34 countries is described in the succeeding paragraphs. Requirements for servicing trademarks are noted only where the country requires payment of annual or other periodic maintenance fees to keep them in force during the registration periods.

Argentina—Not necessary for foreign owners of patent registrations to make maintenance fee payments through local agent or representative. Nonresident can pay directly by check or bank draft to "Secretaria de Estado de Industria y Comercio Interior, Direccion Nacional de la Propiedad Industrial," Av. Julio A. Roca 651, Buenos Aires. Third party resident another country can have U.S. owner's power of attorney make payments.

Australia—Patent maintenance fee payments may be made directly by foreign owner or agent. Not necessary for agent reside Australia. Desirable for patent owner provide address of local person for Patent Office contact on matters such as incorrect fee payments, changes fee schedules and due dates. Not incumbent on Patent Office inform foreign patent owners of fee due dates.

Austria—Maintenance fee payments for registered patents can be made directly by foreign owners or other authorized parties not resident Austria. Representative in third country can exercise power of attorney and make payments for foreign owner.

Belgium—Foreign owners of patents can pay maintenance fees directly to Ministry of Economic Affairs (Industrial and Commercial Property Service), Brussels, without engaging local representation, or retaining agent. Such payments can also be made by owner's representative resident third country. For trademark situation, see Netherlands on Benelux Trademarks Office procedures.

Brazil—Maintenance fees for foreign-owned patents cannot be paid directly from abroad. However, such payments can be made through any representative resident Brazil, not necessarily patent agent or with power of attorney.

Chile—Maintenance fee payments for foreign-owned patent registrations can be made only by duly registered Chilean patent attorney with power of attorney, not by anyone else.

Trademarks held by Chilean subsidiary of U.S. company may be renewed by any authorized representative such company.

Czechoslovakia—Foreign patent owners must make patent maintenance payments through local agents designated by Czechoslovak Office of Patents and Inventions. Nonresidents must be represented in dealings that Office either by attorneys from Czechoslovak Legal Advice Bureaus No. 1 or 10, government-controlled lawyers' cooperatives, or from "Unipatent," a specialized government organization. Not possible third person residing another country make payments for U.S. patent owner.

Denmark—Foreign patent owners may make direct payments maintenance fees; no intermediary necessary. Such payments may also be made on behalf U.S. owner by any third party resident another country.

Finland—No legal requirement that annual maintenance fees for foreign patents be paid only by local agent. Nonresident foreign owner, or third party resident anywhere, can make such payments directly. However, Finnish Board of Patents (Patent Office) will not remind or inform foreign owners of payments due, or changes in fees or exchange rates. Board considers it practical necessity for owner to have Finnish agent for all patent transactions. Association of Finnish Patent Attorneys will have its members withdraw from any patent case where annual maintenance fees are paid directly by owner to Board of Patents.

France—Maintenance fee payments for foreign-owned patents do not have to be made by, or through, local agent or other representative. Nonresident foreign owner, or authorized party in another country can make such payments directly to "Agent Comptable" of French Institute of Industrial Property (INPI) by international money order.

Germany, Federal Republic of—Nonresident patent owners do not have to make maintenance payments through local agent or other representative in Germany. Such owners, or authorized representatives in third countries with power of attorney from owners, may make such payments directly. Local representative required in dealings with Patent Office to rectify matters where annual fees not paid in time.

Greece—If foreign owner of patent registration in Greece does not reside that country, he has to submit payment through authorized party, can be anyone with owner's power of attorney. Greek Patent Office will not accept payment of foreign patent maintenance fees by mail.

Iran—Foreign patent owners need not make required payments of maintenance fees through local agents or other representatives in Iran. Such owners, or authorized representatives in third countries, may pay directly to Department of Company Registration, Trademarks and Patents, Avenue Sabi, Tehran.

India—Payment of maintenance fees for foreign-owned patents can be made by the owner directly, or through a local agent, or through an agent in another country, to the Indian Patent and Trademarks Office. The only requirement is that foreign firms have Indian mailing address because Office does not communicate directly to parties outside India.

Israel—No legal requirement that foreign owners of patents pay maintenance fees through local agent or other representative in Israel. Such owners, or authorized representatives in third countries, may make payments directly. Recommended that such payments be made through local bank which would transfer them to Patent Office in local currency corresponding to exact fees.

Italy—Maintenance fee payments for foreign-owned patents may be made directly to Italian Patent Office by foreign-owner resident outside Italy; or by his representative in Italy or in his own or any third country. Payments from outside Italy may be made directly to that office by international money order. Payments within Italy must be deposited at local Post Office, and receipt sent to Patent Office.

Japan—Maintenance fees for foreign-owned patents must be paid by owners through representative or agent in Japan. Foreign owners resident abroad cannot make payments directly to Japanese Patent Office, nor can representative parties third countries make such direct payments their behalf.

Korea—Fees to maintain patents in force may be paid directly to Korean Government by nonresident owners. No intermediary representative required. Any resident in third country having foreign owner's power of attorney may also make such payments directly to Korean Government.

Mexico—Foreign owners of patents, residing abroad, may pay maintenance fees directly to: C. Tesoro de la Federacion, Director Propiedad Industrial, Secretaria de

Industria y Comercio, Mexico 7, D.F., Mexico Representative in third country, with power of attorney from foreign owner, can make such payments above office, provided his power of attorney has been duly filed with that office.

Norway—Foreign owners do not have to pay maintenance fees for patent registrations through local representative. Such payments can be made directly by foreign owners regardless where domiciled, also by any representative party holding power of attorney.

Netherlands—Payments of maintenance fees for registered patents owned by foreigners must be made by representative residing in Netherlands, not necessarily registered patent agent. However, persons other than patent agents rarely used this purpose since Patent Office has computerized service with patent agents for reminder notice on patent fees due. Patent Office also maintains standing accounts with patent agents from which payments are deducted. All trademark matters now handled by Benelux Trademarks Office at The Hague; no maintenance, only renewal fees.

Pakistan—Legally, foreign patent owner, non-resident Pakistan, can make maintenance payments directly to Patent Office. But, nonresident will not receive any communications or receipts from authorities. For practical purposes, therefore, payments may have to be made through local agent since law requires an "address of service in Pakistan" for transactions, and authorities will not correspond with anyone on patent and trademark matters outside country. Third party resident in another country cannot hold power of attorney in Pakistan from U.S. owner to make such payments.

Philippines—Foreign owners of patent registrations may make maintenance payments directly to Patent Office, even if nonresidents. Not necessary to make such payments through local agent or representative.

Portugal—Maintenance fee payments for patents must be made by foreign owners either through Portuguese agent, or other third party resident Portugal with power of attorney from owner authorizing such payments.

South Africa—Payments of required fees to keep foreign-owned patent registrations in force can be made directly to Patent Office by foreign owners. But, foreign firm must complete renewal form and attach South African revenue stamps obtainable only that country. Only patent agent can ordinarily act for another party in South Africa. However, if another party that country obtains the stamps and affixes them to renewal forms, this is acceptable.

Spain—Payment of fees for maintaining foreign-owned patents (annually) and trademarks (quinquennially) must be made through an officially sanc-

tioned agent or other representative in Spain with proper authority. No direct payments can be made by foreign owners or representatives in third countries.

Sweden—Not necessary for foreign patent owners pay maintenance fees through representatives in Sweden, can make such payments directly. Representatives in third countries can also make such payments on behalf of owners.

Switzerland—Maintenance fees for foreign-owned patents can be paid directly by owners or representatives anywhere. However, reminders on patent fees are not sent to owners or representatives abroad, only to recorded Swiss representatives. Patentees may open deposit account with Patent Office, giving it instructions on every case where account to be debited for specific patents. Over-drafts due lack of funds can cause cancellation. Patent Office suggests advance fees be paid for several years or for entire life of patent involved. In absence deposit account, fees payable by banker's check at Swiss bank.

Taiwan—Payment of maintenance fees for foreign-owned patents can only be made through resident patent attorney registered Taiwan. The foreign owner of a patent cannot make such payments directly whether or not he resides in Taiwan. No representative in third country can have recognized power of attorney make such payments.

Turkey—Foreign patent owners must pay maintenance fees through an agent resident in Turkey, selected from a government approved list of Turkish agents.

United Kingdom—Foreign patent and trademark owners not required to pay maintenance fees through local agents. Payments may be made directly to Patent Office by owner residing abroad or his representative in third country. British authorities suggest desirability of U.S. patentee appointing patent agent or overseas subsidiary to render "personal reminder" service for due dates and changes in fees.

USSR—Foreigners can pay maintenance fees to keep patents in force only through Patent Department of All-Union Chamber of Commerce which charges fees for such services.

Venezuela—Patent maintenance fees must be paid in cash (not check) through personal appearance by owners or registered agents at the Registry of Industrial Property of the Ministry of Development.

Yugoslavin—Foreign patent and trademark owner must be represented by "a professional representative who is a Yugoslav citizen holding a power of attorney" in dealings with Federal Patent Bureau, including maintenance fee payments (annual for both patents and trademarks).

DEVELOPING A PRODUCT AS LICENSEE OF FOREIGN COMPANY

By VINCENT TRAVAGLINI, DIRECTOR
Office of International Finance and Investment

The nature and extent of the inflow of product and design technology to the United States from abroad via licenses was surveyed in 1961 by the George Washington University (GWU) Patent, Trademark and Copyright Foundation. The survey determined that there was a relatively small flow but that it was becoming more significant and could be expected to increase in the future. The lack of interest historically is explained partly by the fact that the engineering departments of most of the U.S. companies had a tendency to view European engineering developments skeptically.

There has been a change in this situation which confirms the accuracy of the GWU survey's prediction. Not only are more American companies ferreting out foreign technological developments, but European managements are exercising much more initiative in selling their own techniques abroad. Two types of measurement are available which indicate the trends.

Patenting in the United States by Foreigners

The number of patents issued annually in the United States has grown from 47,000 in 1960 to 78,000 in 1972. A significant factor in this growth has been the number of patents issued to foreign-owned companies and nationals domiciled abroad. Since 1960, there has been a gradual percentage increase in U.S. patenting by foreign residents, as compared to patenting by U.S. domiciled parties. In 1960, about 16% of all U.S. patents were issued to foreign residents (7,600 out of 47,000 issued). By 1966, this percentage increased to about 20% (13,700 out of 68,400), in 1969, to a little over 25% (17,000 out of 67,600), and in 1972, to about 31% (23,800 out of 78,000.) During this period, the average annual increase in patent issues to U.S. nationals was about 6%. For foreigners resident abroad, U.S. patent issues increased, on the other hand, by a significant average of about 16% each year.

Also of interest is the country distribution pattern. Of the U.S. patents issued annually to foreign residents, over 90% are to patentees in nine countries—Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, and the United Kingdom. In 1972, Germany (5,700), Japan (5,200), U.K. (3,200), France (3,200), Switzerland (1,300), and Canada (1,200), were the principal countries of residence. Total patent issues to residents of the remaining listed countries were less than 700 per country. Significantly, Japanese nationals

increased their annual U.S. patenting from 545 issues in 1964 to 5,200 in 1972, an annual average increase of 32%. German patenting in this country, which has always been high, increased from 2,400 in 1964 to 5,700 in 1972 (15% annual average increase). French patenting went from 1,013 to 2,200 in this period (13% average increase) and U.K. patenting from 1,800 to 3,200 (12% average increase).

U.S. patenting by Eastern European enterprises has been slight. However, an indication of more recent interests from this area is noted. In 1964, enterprises in Bulgaria, Czechoslovakia, Hungary, Poland, Romania and U.S.S.R. received 70 U.S. patents. In 1972, this increased to 577 U.S. issues. The U.S.S.R., which received only 12 patents in 1964, received 355 U.S. patent registrations in 1972.

U.S. Royalty and Fee Payments Abroad

A growing interest in foreign licensing here is also reflected in balance of payments figures. While U.S. receipts of royalties and fees from licensing abroad are about 9 times greater than payouts for foreign technology licensed here, this latter payment has had a steady annual growth. U.S. royalty and fee payments for licenses received from foreign-affiliated and non-affiliated firms rose from a total of \$127 million in 1964 to \$405 million in 1974.

Also noteworthy is the type of activity under which U.S. licensing outflows occurred. Since 1964, an annual average of 80% of the total payments resulted from licensing activity in manufacturing industries. The remaining payments occurred from licensing in petroleum, trade, and other nonmanufacturing industries.

Foreign Technology Availabilities

In recent years, foreign managements have been very active in pushing introduction of their technologies in the United States. U.S. firms have also become more interested in taking licenses for foreign technology in a variety of fields offering promising marketing opportunities in this country. A few examples follow.

1. A new pliable contact lens (SOFLENS), made by a soft, water absorbing plastic technology developed by the Czechoslovak Academy of Science, is now being licensed in the United States.

2. The "Soderberg System" used in the aluminum industry for ore treatment and refining is a major technological process developed in Norway; it is now used by about half of the alumina reduction plants in the United States.

3. The German Wauke rotary combustion engine is licensed to Curtiss-Wright Corporation, which has the rights to sublicense to North American automotive manufacturers and makers of other types of equipment. The engine is now in a feasibility study stage.

4. Over half of the plate glass produced in the United States is made under licenses for the Pilkington "float glass" process developed and owned in the United Kingdom.

5. In broadening its activities to include water pollution control, Zurn Industries of Erie, Pennsylvania has entered into a licensing agreement with Balcke Maschinenbau AG of Bochum, West Germany for production of cooling water towers. Balcke invented the natural-draft cooling tower around the turn of the century.

6. The Newport News Shipbuilding and Dry Dock Company has signed a licensing agreement with a French firm to build a ship container system that can keep liquified natural gas at -258°F for ocean transport. It features a stainless steel inner membrane with additional layers of plywood and bats.

7. Leading Japanese industrial firms are offering licenses in the United States, such as Hitachi, Ltd., which announced availability of 513 of its U.S. patents for licensing. Included in these patents are electron microscopes and other research and industrial precision instruments.

8. Soviet technology now available for licensing in the United States relates to surgical devices, waterproof cement, various types of blast furnaces, hydraulic presses, welding equipment, and electroslag remelting process for making high-quality alloys, superalloys and other steels.

Some examples of foreign technology flows to the United States over the years which have resulted in popularly-known products are:

Ball-Point Pen—The modern form of the ball-point pen was developed by two Hungarians in the early 1940's. Several United States companies, including Eversharp and Eberhard Faber Company, licensed the rights for production in the United States.

Cellophane—Of French origin, cellophane was first produced in the United States in 1924 by DuPont, which was assigned the U.S. patent, process and know-how rights by the French developer.

Crease-Resisting Fabrics—A major innovation in the textile industry, the crease-resisting process was the result of research by the Textile Research Company Ltd., a British firm. Its commercial application dates to 1932, and is widely used throughout the world.

DDT—Although originally prepared in 1874, DDT's insecticidal qualities were not realized until discovered by J.R. Geigy, a Swiss firm, in 1939.

Fluorescent Lamp—Based on earlier discoveries in France and Germany, fluorescent lighting was first marketed in the United States in 1938 by the General Electric Company.

Hardening of Liquid Fats—Widely used in soaps and food, the process for hardening vegetable and animal fats came from Germany, and dates back to 1910-14.

Helicopters—The first practicable design was produced in Germany in 1937. United Aircraft Corporation produced the first successful United States design in 1941.

Insulin—Eli Lilly Company, an American firm, cooperated with a group of experts associated with the University of Toronto to develop techniques for the factory production of this Canadian invention.

Jet Engine—The jet engine was the result of simultaneous development efforts in England and Germany during the late 1930's and 1940's.

Magnetic Recording—A Danish invention, it was first produced in the United States in 1933.

Plexiglas and Lucite—The American Rohm and Haas firm first produced plexiglas in the United States in 1935, based on discoveries of the German Rohm and Haas firm. Based on a Canadian discovery, DuPont secured patent rights to produce Lucite in the United States in 1936.

Penicillin—Penicillin was discovered in England in 1928.

Polyethylene—The low temperature process for manufacturing polyethylene was originally developed in Germany in the mid-1950's; has since been licensed to United States firms.

Self-Winding Watch—Primarily a Swiss invention, its development dates back to the 1920's.

Tungsten Carbide—Extensively used in dies, machine tool cutting edges and when resistance to wear and corrosion are essential, tungsten carbide was developed commercially in Germany by Krupp. General Electric Company purchased the American rights to Krupp patents and has made numerous technical improvements.

Channels for Obtaining Foreign Technology

Many companies do not look for licensees. They merely accept or reject those that offer themselves as candidates for a licensing agreement. Locating potential licensors may, therefore, represent a considerable problem for the American firm without overseas connections.

Some licensing executives think the best way to locate or screen potential licensors is to talk directly with the candidates' customers, distributors and suppliers. They also recommend interviews with bankers, businessmen and government officials in the licensor's business area. Three main avenues for American firms to locate possible providers of products, designs or technology are: (1) through cross licenses and grantback

clauses in licenses they extend to foreign licensees, (2) seeking licenses through the services offered by the U.S. Department of Commerce in cooperation with other federal agencies, (3) through the use of a patent or licensing company or intermediary.

Cross Licenses and Grantback—In conducting their foreign licensing negotiations, U.S. manufacturing companies typically think in terms of a total compensation package under a projected licensing arrangement. The most prominent features of the compensation are, of course, the royalty payments remitted by the licensees and the technical fees received for services performed for licensees. As foreign governments have involved themselves in licensing negotiations on behalf of their nationals, U.S. licensors have sometimes had less bargaining flexibility with respect to royalty rates and other fixed components of the compensation pattern. To some extent this has led to increased recourse to return flows of technology. In a 1968 survey by the National Industrial Conference Board of types of return received from foreign licensing operations, of 191 companies 94, or 49.2%, reported receipt of feedback on licensed rights and technology while 83, or 43.5%, reported receipt of reciprocal license rights received on a royalty-free basis.

Some licensors avoid cross licenses and would rather negotiate a separate agreement covering any reciprocal license grants. The avoidance may be for antitrust reasons. Feedback rights and know-how are commonly made available to the licensee on an exclusive and royalty-free basis. However, if new patents or products are covered by the return grant, the contract may stipulate that licenses will be granted at reasonable royalties mutually agreeable to the parties.

As licensors, United States companies should be more interested in obtaining grantbacks than is currently the case. European companies, when extending licenses to United States companies are highly interested in grantbacks, even going so far as to shade the royalty rate lower in consideration of potentially profitable new products and improvements. In sum, although there is still only a relatively small inflow of direct licensing to U.S. companies from abroad, it is significant for some companies in providing new products or techniques. The steady growth of European research and development activities is likely to expand this flow.

Services Through the U.S. Department of Commerce—The Patent and Trademark Office and the Domestic and International Business Administration (DIBA) of the Department of Commerce offer some valuable services to the would-be licensee. In the *Official Gazette* of the United States Patent and Trademark Office there is usually a list of patents offered for licensing or sale by their owners—domestic or foreign. Patentees wishing to publicize the availability of their patents are permitted to list them; a \$3 charge is made. A page of the *Official Gazette* showing this feature is attached as Annex A.

The *Official Gazette* is available from the Patent and Trademark Office. Also several hundred libraries throughout the country receive weekly issues of the *Gazette* as depository libraries.

As part of the U.S. Government's efforts to improve the balance of payments, DIBA has a program to facilitate the licensing of foreign inventions and products in the United States. This program receives wide and favorable attention in European business circles, and has helped to bring about a number of successful licensing arrangements in the United States between foreign and U.S. firms.

The advantages to the U.S. balance of payments can be significant. If the U.S. licensee company can manufacture goods which might otherwise have been imported into the United States, the difference between the import price and the much lower royalty payment can be saved.

The principal advantage to the foreign firm is, of course, the access to the world's richest market—50 United States—without the substantial cost of building up its own distribution, promotion and advertising organization.

For the American company which manufactures in the United States a foreign-developed product under license, there are several advantages:

1. It can bring about diversification of product line without cost of research and development. Many foreign products are based on a high level of technology and can only find their optimum market within the enormous U.S. market.

2. It may give American companies access to patents on design and processes owned by foreign companies.

3. There is a possibility of reciprocal licensing arrangements for distribution of the American company's products in the foreign partner's sales territory.

4. There can be a strengthened financial position.

5. There is possibility of penetrating complementary markets and of expanding existing ones.

To implement this program our commercial officers in the U.S. Embassies and Consulates abroad actively seek to interest potential licensors. The foreign firms interested in having their products or processes used in the United States under licensing agreements will discuss it with commercial officers, and provide details of their products and components. This information is passed on to DIBA's Bureau of International Commerce (BIC) in Washington which makes it known to American companies through the bi-weekly publication, *Commerce Today*, and through the 43 Commerce District Offices, State industrial development agencies, banks, utility companies, some private firms with in-house publications for their industrial clients, and by other means. Annex B illustrates the treatment given these licensing opportunities in *Commerce Today*.

The official of an American company who becomes interested in a particular product brought to his attention in one of these ways will so inform BIC of his interest. BIC will send him the name and address of the foreign company and technical literature on its product, if available, from which the official can make an initial evaluation; and if the official is interested in pursuing this opportunity further, he can make contact with the foreign company direct.

BIC also has a proposal form (Annex C) for U.S. companies interested in producing foreign goods under license. The form is designed to elicit such information as, what are you manufacturing now?, what are your manufacturing capabilities?, and what kinds of foreign-developed products do you want to manufacture and market? This information is forwarded to the U.S. commercial officers in key cities in Europe, Canada and Japan. These officers make your wishes known to foreign manufacturers, and the Department subsequently sends to the American company the names and addresses of responding foreign firms along with sales and technical data covering the products they offer for manufacture in the United States. The American company takes over from there.

Licensing Companies and Intermediaries—There are a number of so-called licensing companies, patent development companies and the like which offer services ranging from finding products and business opportunities, to negotiating and administering licensing agreements. Many export management firms also provide these services. These licensing specialist firms have become an important source of information on new developments in various technical fields. Most of their work is in the foreign field because prospective licensees can usually find adequate assistance in the United States through their usual trade contacts and professional advisers. The use of intermediaries for finding purposes is especially suitable for companies too small to pursue extensive inquiries on their own, or to be the recipient of direct proposals from abroad.

You can identify and reach these intermediaries through your own firm's legal counsel or through the Yellow Pages (see "Patent Development and Marketing," "Management Consultants," and "Foreign Trade Consultants," among others). You will find a number of such firms under these listings in any large city. An example is the National Patent Development Company which is engaged in the development and marketing—principally through sublicenses—of a product used for various medical purposes for which it holds licenses from the Czechoslovak Academy of Sciences.

A very useful—and unique—list of Institutions and Publications which Publicize Opportunities for the Sale or Licensing of Patented or Unpatented Technology has been prepared by the World Intellectual Property Organization (WIPO), located in Geneva, Switzerland. WIPO is the administering agency for the International Patent and Trademark Convention (Paris Union). The publication is entitled *Transfer of Technology and Licensing Opportunities* and lists the names and addresses of 120 institutions, both governmental and nongovernmental, in 28 countries.

Market Analysis and Trademarks

In the process of identifying products and processes for use in the United States, it is important not to overlook the question of whether the U.S. market will be receptive to the innovation in question. This is especially vital for consumer products. There have been some unfortunate experiences indicating that not all new ideas travel well. To cite one example dry soups dominate the market in Europe, but their introduction in the United States proved a failure. So the selection process must include sound market analysis and a marketing strategy that takes into account the differences between the United States and foreign markets. In this connection, the prospective licensee will want to give thought to the use of a trademark in marketing the licensed product. There may be an advantage in possessing the right to the licensor's mark if it is well-known and respected. On the other hand, the licensee might be well advised to use his own or develop a new trademark in order to preserve his marketing position in case the basic license should terminate. However, the registration of licensed patent and trademark rights is a matter to be considered in the licensing negotiations, and that subject is outside the scope of this article.

In the last analysis, product selection is an art, not a science. Investments which appear irrational could perhaps be the ones to bring in the best dividends in the future. Who would have invested in Gutenberg if he had known the contemporary market for books was so limited?

Certificates of Correction for the Week of Dec. 7, 1971

| | | | |
|-----------|-----------|-----------|-----------|
| 3,877,370 | 3,871,880 | 3,886,384 | 3,883,893 |
| 3,888,668 | 3,871,794 | 3,888,000 | 3,888,744 |
| 3,877,180 | 3,871,880 | 3,886,687 | 3,883,893 |
| 3,885,310 | 3,871,887 | 3,881,100 | 3,888,073 |
| 3,885,941 | 3,872,115 | 3,881,277 | 3,887,083 |
| 3,882,419 | 3,872,813 | 3,881,605 | 3,882,378 |
| 3,886,394 | 3,873,285 | 3,881,830 | 3,883,265 |
| 3,881,318 | 3,873,384 | 3,881,830 | 3,888,647 |
| 3,883,017 | 3,873,536 | 3,882,118 | 3,888,140 |
| 3,881,322 | 3,873,784 | 3,882,713 | 3,888,004 |
| 3,883,533 | 3,873,807 | 3,882,884 | 3,888,330 |
| 3,881,648 | 3,873,800 | 3,882,933 | 3,888,789 |
| 3,889,245 | 3,874,347 | 3,883,126 | 3,888,754 |
| 3,889,185 | 3,874,530 | 3,883,187 | 3,881,843 |
| 3,889,350 | 3,874,810 | 3,883,216 | 3,881,733 |
| 3,883,177 | 3,875,078 | 3,883,281 | 3,882,048 |
| 3,888,274 | 3,875,828 | 3,883,780 | 3,883,152 |
| 3,888,191 | 3,876,280 | 3,883,882 | 3,883,778 |
| 3,888,149 | 3,876,878 | 3,884,287 | 3,888,001 |
| 3,888,444 | 3,877,271 | 3,884,458 | 3,888,000 |
| 3,888,625 | 3,877,285 | 3,884,483 | 3,888,128 |
| 3,888,243 | 3,877,387 | 3,884,487 | 3,888,117 |
| 3,888,241 | 3,878,810 | 3,884,673 | 3,888,169 |
| 3,888,618 | 3,879,324 | 3,885,687 | 3,888,408 |
| 3,887,817 | 3,879,448 | 3,885,280 | 3,888,893 |
| 3,887,737 | 3,879,690 | 3,885,602 | |
| 3,888,020 | 3,879,839 | 3,885,616 | |
| 3,887,025 | 3,879,781 | 3,885,915 | |

Patents Available for Licensing or Sale

| | | | |
|------------|--|--------------|---|
| IN 314,558 | MAYER KRI RODE HOLZNER Kenneth L. | Nov. 9, 1970 | Percher Drive, Sacramento, Calif. 95802 |
| 3,888,701 | PATIENCE EQUIPMENT Robert Simpson | 126 | Percher Drive, Merced, Cal. 95347 |
| 3,886,789 | WATKINSON TONG WITH PATENTING IN- FLUENT MILANES Edward R. Leonard, 2022 N. Middle, Whitish, Kans. 67120 | | |
| 3,885,391 | MALG GENITAL APPLIANCE Bruce P. | | Cart, 125 17th St., Oakland, Calif. 94612 |
| 3,877,480 | WELP CLARINAULE HAIRBRUSH Robert D. | | Hart, P.O. Box 2101, Cincinnati, W. Va. |
| 3,888,635 | REMOLD CONTROL PAPERET Ernest C. Decker- | | ing, 1205 Madison Ave., Columbia, S.C. 29201 |
| 3,888,818 | THIR FREEDOM WARNING DEVICE Mc- | | Clint Henson, 843 W. 9th St., Odessa, Tex. 79705 |
| 3,888,348 | CLAMPING DEVICE Sam Wright, Creative | | Products, Inc., P.O. Box 81, Denver, Ill. 62228 |
| 3,885,711 | INJECTION APPARATUS AND METHOD OF | | INJECTION Edward M. Boyce, 30 Church St., Plymouth, Pa. 15863 |
| 3,885,141 | VISUAL SIGNAL FOR RURAL RAILROADS | | Edward H. Taylor, 1384 1/2 Walnut Ave., Cantonment, Calif. 94004 |
| 3,888,878 | BUILDING BLOCK Toss P. Seem, H. E. A. | | Aurill Road, Brookville, Ohio, 43008 |

The following 2 patents are offered by: O. C. Forthman,
501 H. Page St., Box 628, Sylvester, Ga. 31791

| | |
|-----------|-------------------------|
| 3,816,325 | MISSILE GUIDANCE SYSTEM |
| 3,897,040 | SAPIDITY HANGER |

General Motors Corporation is prepared to grant any
exclusive license under the following patent upon reasonable
terms

Application for license may be addressed to the Director,
Patent Section, General Motors Corp., 3004 W. Grand Ave.,
Detroit, Mich. 48202

3,466,237. BRAZING OF TITANIUM

The following 4 patents are offered by the Kennecott Copper
Corporation

Inquiries concerning license for the patents may be ad-
dressed to: Lawrence C. Oster, Metallurgical Laboratory, Ken-
necott Copper Corp., 328 Spring St., Lexington, Mass. 02172

3,894,176. METHOD AND APPARATUS FOR ORBITAL
LOGARITHMIC ORIENTATION AND MEASURE-
MENT

| | |
|-----------|--|
| 3,888,693 | METHOD AND APPARATUS FOR SEMI-PASSIVE ONLY UPSET FORMING BOTH ENDS OF A DOUBLE MATERIAL ROD BLANK OR THE LIKE |
| 3,816,204 | APPARATUS FOR ACCURATELY MOLDING COP- PER ON A ROTARY CORE DRESSER |
| 3,816,340 | REFINING OF LIQUID COPPER |

General Electric Company is prepared to grant any
exclusive license under the following 12 patents upon reasonable
terms to domestic manufacturers

Applications for license under the following 2 patents may
be addressed to: Patent Counsel, Tidal Engineering
Private Corporation, General Electric Company, Westborough,
Mass. 01581

| | |
|-----------|---|
| 3,880,784 | T V CAMERA SYSTEM EMPLOYING A LUMI- NANCE PICKUP TUBE AND A COLOR PICK- UP TUBE FOR MULTIFUNCTIONAL RED AND BLUE SIGNALS |
| 3,883,287 | METHOD OF JOINING WIRES OF DIFFERENT DIAMETERS |

Applications for license under the following 4 patents
may be addressed to: General Electric Company, Dynamic
Engineering, 160 Main St., Pittsfield, Mass. 01201 At-
tention: J. P. McDevitt, Patent Counsel

| | |
|-----------|---------------------------|
| 3,886,830 | SUPERCONDUCTIVE MATERIALS |
| 3,886,408 | SUPERCONDUCTIVE MATERIALS |
| 3,886,820 | SUPERCONDUCTIVE MATERIALS |
| 3,886,328 | SUPERCONDUCTIVE MATERIALS |

Applications for license under the following 10 patents may
be addressed to: Patent Counsel, Major Appliances, Inc.,
Green, General Electric Company, Appliances Division, Louisville,
Ky. 40225

| | |
|-----------|---|
| 3,884,588 | CLOTHING TRYING MACHINE WITH AUTO- MATIC UNLOADING MEANS |
| 3,884,591 | PROCESS OF DRYING FABRICS IN A ROTARY DRUM KNOCKOUT |
| 3,884,593 | DRIVE CONTROL |
| 3,884,595 | ELECTRONIC DRIVERS CONTROL |
| 3,884,597 | SIGNAL MEANS FOR AUTOMATIC WASHING MACHINE CONTROLLED BY TIMER DE- VICE |
| 3,884,599 | ELECTRONIC TEMPERATURE REGULATION SYSTEM DRUM SOLID STATE DEVICES AND POINT CONTACT SENSORS |
| 3,884,601 | FLUID NOZZLE |
| 3,884,603 | ELECTRONIC TEMPERATURE REGULATION SYSTEM DRUM SOLID STATE DEVICES AND POINT CONTACT SENSORS |
| 3,884,605 | SOLID STATE TEMPERATURE SENSOR |
| 3,884,607 | VALVE ASSEMBLY |
| 3,884,609 | NOISE DAMPING METHOD AND APPARATUS FOR A WASHING APPLIANCE |
| 3,884,611 | SIGNAL AND CONTROL FOR WASHING MA- CHINES |
| 3,884,613 | RACE ASSEMBLY FOR FRONT LOADING DISH-WASHER |
| 3,884,615 | CONTROL, BRASS FOR AIR CONDITIONING SYSTEM |
| 3,884,617 | SELF-REVERSING SPRAY ARM ASSEMBLY FOR A WASHING APPLIANCE |
| 3,884,619 | ADJUSTABLE ASSEMBLY FOR FAIRIC CLEANING MACHINES |

Applications for license under the following 25 patents
may be addressed to: Patent Counsel, Transportation Re-
search Division, General Electric Company, Lynn De-
partment, Bldg. 20-3, 300 E. Lake Street, St. Paul, Minn. 55101

| | |
|-----------|---|
| 3,884,670 | RAIL VEHICLE DETECTION SYSTEM |
| 3,884,672 | RAILWAY TRACK CIRCUIT |
| 3,884,674 | RAIL VEHICLE CONTROL SYSTEM |
| 3,884,676 | OVERSPEED CHECKING CIRCUIT |
| 3,884,678 | INTEGRITY CHECKING CIRCUIT FOR TRAIN CONTROL SYSTEM |
| 3,884,680 | STATIC FIELD BRUNT CONTACTOR CON- TROL |
| 3,884,682 | PRECISION TIMING PULSE GENERATOR |
| 3,884,684 | SELF-CHECKING SYSTEM FOR A VEHICLE REGISTRATION SYSTEM |
| 3,884,686 | SPEED TAPER BRAKE MODULATION SYS- TEM |
| 3,884,688 | SIGNALING SYSTEM |

Licensing, Investment Abroad

Licensing and investment proposals from foreign firms are listed in three columns. Specific product interests in each proposal are highlighted in bold type to facilitate identification and each proposal is preceded by the appropriate four-digit product number taken from the Standard Industrial Classification (SIC) Manual.

Background information on opportunities abroad and assistance on overseas investments are available from the Overseas Products and Investment Opportunities Staff, Room 4021, U.S. Department of Commerce, Washington, D.C. 20230. "P" identifies those deals in which responding to any of the specific proposals listed.

WTDR indicates that a World Trade Data Report containing financial and background information on the foreign firm is available for \$15 from the Export Information Division, Room 1712, U.S. Department of Commerce, Washington, D.C. 20220, or from any Commerce District Office.

DPIC indicates that the country involved is eligible for investment insurance coverage and financing from the Overseas Private Investment Corporation. Information regarding applicable coverage may be obtained from DPIC, Washington, D.C. 20527.

8189—MALAYSIA—Government organization seeks foreign investment for joint venture coconut plantations and banana plantations, including large acreages of virgin lands are open as investment opportunities. **Writs**, Managing Director, Malaysia, 38-C, Jalan Tanjong, Singapore Cable: MALCCO, PENANG P-75670 DPIC

2020—SENEGAL—Collaboration is sought with a U.S. firm to produce rice, yogurt and ice cream. Firms also wishes to purchase equipment for production and packaging of above mentioned items. Company's current activity is production of concentrated milk products using imported milk powder, production capacity 77,000 mt. yearly. Has limited facilities for packing, freezing, cooling and laboratory work. A Modern Star, Director, Société Industrielle des Produits Laitiers (SIPILA), 1 rue de la Libération, BP 145, Dakar WTDR P-75673 DPIC

3438—DENMARK—Firm seeks joint venture with U.S. producer of machinery and equipment for manufacture of prepared corn-soybean oil to be sold primarily for retailing. Established in 1975, company employs 18. Produces products A/S, 12 Vesterlandsvej, DK-2100 Copenhagen D WTDR P-75672

3449—UNITED KINGDOM—Company seeks arrangements to manufacture under license on behalf of American textile companies man-made fabric made from yarn suitable for label and lining tissues. Material is cut and manufactured by either dry or wet method, preferably plain knit and jersey knits, fabric suitable for dyeing and printing. Fabric should have strength combined with draping properties. Company is manufacturer and distributor of textile garment lining established in 1959. It has 85 employees. M. Booth, Managing Director, Booth & Spink (Textiles) Ltd., Alton Mill, Kirby, or Colne, Lancashire P-75671

2408—MALAYSIA—State of Kelantan invites U.S. firms to participate in establishment of forestry complex. American company is offered up to 38 percent equity in proposed project to involve for industrial and marketing assistance. Operations will involve logging and wood processing, including sawmilling, log drying and production of molding and paneling and forest silviculture. Supply of timber for project is 229,000-acre. British Forest Reserve Investment Company are invited to submit proposals to Chairman, Federal Industrial Development Authority, P.O. Box 618, Kuala Lumpur P-75661 DPIC Further details available from Overseas Products & Investment Opportunities Staff, Room 4021, U.S. Department of Commerce, Washington, D.C. 20230.

2640—UNITED KINGDOM—Seeks license to manufacture light weight trading bags and newly developed types of envelopes. Firm produces and markets paper bags and sacks in U.K. and Common Market. It also distributes of plastic bags. A. Aydin, Managing Director, All Corder Bag Co. Ltd., Belle Isle Road, Leeds LS10 2DG, Yorkshire, England P-75669

2641—MALAYSIA—Interested in joint venture to manufacture polyethylene/polypropylene for laminated collectors filter paper, aluminum foil, metal paper and laminates. In exchange for technical know-how and production machinery U.S. firm is offered up to 40 percent equity and management participation in project. Malaysian company has acquired 61 acre site in Malacca, about 100 miles north of Kuala Lumpur. Is building new plant. Firm regularly has obtained patent status for project from Malaysian Government. G. I. Boag, Managing Director, Malaysia Wood Paper Manufacturers Berhad, c/o Malaysian International Merchant Bankers Berhad, Yoo Sang Building, 5th Floor, Jalan Raja Chulan, Kuala Lumpur WTDR P-75661 DPIC

2781, 2782—SWEDEN—Licensing or joint venture arrangement sought to produce non-flammable lithium acetate. Firm only interested in countries with U.S. manufacturing companies. Company is subsidiary of Ensa Ltd. AB, large established business in printing industry. Ragnar Fridman, Vice President, Ensa Ltd., Vasterkyrk Alley 709, S-101 85 Stockholm, Sweden, telephone, 08-247878, telex, 340000 Ensa S. Machine manufacturing firm is group available from Overseas Products & Investment Opportunities Staff, Room 4021, U.S. Department of Commerce, Washington, D.C. 20230 P-75670

2889—SAUDI ARABIA—Seeks joint venture with U.S. firm to establish factory to produce transistor pen ink in Jeddah. Planned output is 100 dozen 2 1/2 oz. bottles per eight hours. Saudi firm seeks 50% share. U.S. company will be expected to provide know-how, technical assistance, machinery and equipment. Saudi firm is medium-sized and deals in electrical equipment, radios and TV sets tape recorders, building materials and decoration items. M. A. Meera, General Manager, Meera, telephone, Meera 24725, Jeddah 25828 P-75684 DPIC

3441—SAUDI ARABIA—Seeks U.S. partner to establish factory for manufacture of cement blocks in Saudi Arabia. Plant should be able to produce 1,500 blocks per hour. Machinery should have provisions for interchangeable frames to manufacture different size blocks. U.S. partner should supply

machinery and equipment, install and provide technical know-how. Saudi Arabian company is medium-sized firm which imports and wholesales premanufactured houses, hospital equipment, and undertakes electrical for contracting and civil engineering contracts. Owner is member of royal family. Prince Abdul Rahman Bin Saud Bin Abdul Rahman, Al-Nasr Al-Jadid, P.O. Box 1147, Riyadh, Meera, 25831, cable, ALNASSRAT, Riyadh P-75680 DPIC

3281—SAUDI ARABIA—Seeks joint venture arrangement with U.S. firm to establish factory for manufacturing inflame inflates. Factory should be able to produce 100 tons of bricks per eight hour day. U.S. firm should provide machinery and equipment, technical know-how and personnel financially. Terms and conditions for U.S. participation negotiable. Firm is engaged in general contracting and has executed several civil engineering contracts for government and private sectors. Crown Mohammed Sultan, Arabian Corporation Co., P.O. Box 2075, Riyadh P-75679 DPIC

3286—UNITED KINGDOM—Firm seeks licensing arrangement to produce therapeutic markings and related products. Company presently produces therapeutic markings of all types, particularly pleuritic and work marks, hats, tanks and various nonfluorescent industrial products. Is interested in all kinds of articles in the material except hoses. It would be prepared to undertake marketing, as required, and is currently selling overseas to all areas except South America and Southern Asia. Established 1955, company is R. F. Collins, Director, Pearson Bros. (England) Ltd., No 3 Hanger, East Actonhouse, Arnold, Susses BN18 0BA, England, P-75662

3312, 3441, 3443—UNITED KINGDOM—

Important Notice

Member countries of the League of Arab States employ a secondary boycott against foreign firms which undertake certain specified types of business relationships with the State of Israel. It is possible that U.S. firms responding to trade or investment opportunities from Arab countries published herein may be asked at some stage of a transaction to participate in an Arab boycott-related restrictive trade practice as defined in the Department's Export Administration Regulations (15 CFR, Part 360 et seq.).

Firms are reminded that pursuant to Section 552 of the Export Administration Act of 1969, as amended, it is the policy of the United States (1) to oppose restrictive trade practices or boycotts fostered or supported by Arab countries against other countries friendly to the United States, and (2) to encourage and request U.S. concerns engaged in the export of articles, materials, equipment or information to refuse to take any action, including the furnishing of information or the signing of agreements, which has the effect of contributing to supporting such restrictive trade practices or boycotts. Accordingly, U.S. concerns receiving such requests in participation in a restrictive trade practice or boycott are encouraged and requested to refuse to comply with them.

Firms are further reminded that U.S. concerns receiving requests to participate in a restrictive trade practice or boycott must report such receipt to the Department of Commerce in accordance with Section 360.2 of the above-cited regulations.



UNITED STATES DEPARTMENT OF COMMERCE
Domestic and International Business
Administration
Washington, D.C. 20234

OFFICE OF EXPORT DEVELOPMENT

PROCEDURE FOR SUBMISSION OF
LICENSING/JOINT VENTURE PROPOSALS

American companies can acquire new products and technology from foreign companies under licensing or joint venture arrangements.

If your company is interested, please complete the attached form and return it to this Office. Pertinent information abstracted from the form will be forwarded to U.S. Commercial Officers in key cities in Europe, Canada, and Japan. These Officers will make known to foreign manufacturers your interest in producing their products in the United States.

The U.S. Department of Commerce will subsequently send to you the names and addresses of responding foreign firms along with sales and technical data covering the products they offer for manufacture in the United States.

You will be expected to acknowledge to the firms the receipt of their offers and, after evaluation, to let the firms know of your company's interest. Copies of your letters to the foreign firms are to be sent to this Office.

Office of Export Development
Bureau of International Commerce

Attachment DIB 4036P "Licensing/Joint Venture Proposal"



| | | | | | |
|---|--|---|--|--|-------------------|
| Form PB-1010 (REV. 4-78) | | LICENSING/JOINT VENTURE PROPOSAL | | U.S. DEPARTMENT OF COMMERCE DOMESTIC AND INTERNATIONAL BUSINESS ADMINISTRATION BUREAU OF INTERNATIONAL COMMERCE | |
| 1. Name and address of company (Street, City, State and Zip code) | | | | 2. Year established | |
| | | | | 3. No. of employees | |
| | | | | 4. Sales last year \$ | |
| 5. Name and title of official to be contacted | | | | Phone _____ _____ _____ | 6. Bank Reference |
| 7. Products presently manufactured | | | | | |
| (Kindly enclose brochures or data sheets describing these products) | | | | | |
| 8. Distribution system | | | | | |
| <input type="checkbox"/> international | | <input type="checkbox"/> nationwide | | <input type="checkbox"/> regional | |
| <input type="checkbox"/> own sales force | | <input type="checkbox"/> reps | | <input type="checkbox"/> Other: _____ | |
| 9. Foreign products which we might wish to manufacture (Please be specific, avoid broad terms such as "electronic products" or "light industrial machinery") | | | | | |
| 10. Type of arrangement desired. <input type="checkbox"/> licensing <input type="checkbox"/> joint venture* | | | | | |
| If a joint venture we expect the following services and/or equity to be provided by the foreign participant: | | | | | |
| We will provide the following: | | | | | |
| * (Kindly enclose copy of latest financial statement; annual report, if available, a prospectus, a brief history of company, and data on manufacturing facilities and distribution system.) | | | | | |
| Additional information may be continued on reverse side of this form or provided as supplementary sheet numbered to correspond with items above. | | | | | |
| Signature and title | | | | Date | |

FORM DIB-40250 (REV. 6-78)

URCOMM-01 48881-175

Please return this completed form to: Office of Export Development/BIC (Room 4820)
 Domestic and International Business Administration
 U.S. Department of Commerce
 Washington, D. C. 20230

WESTERN HEMISPHERE TRADE CORPORATIONS AID EXPORTS TO LATIN AMERICA AND CANADA

By MICHAEL A. ALLARA

Legal and tax clarifications affecting the category of business enterprises known as Western Hemisphere Trade Corporations (WHTC's) have stimulated renewed interest in them. These clarifications are welcome because the WHTC constitutes a significant tax benefit for those U.S. businessmen who export to, or make active investments in, the non-U.S. part of the Western Hemisphere. Special tax benefits have been available to any corporation qualifying as a WHTC since Congress passed the Revenue Act of 1942. Although the Act was originally passed to improve the competitive position of U.S. businessmen who made direct investments in Latin America, it has been forged by court decision into a valuable aid to U.S. firms exporting to Latin America and Canada. These decisions have clarified most of the original uncertainty about an exporter's eligibility to benefit from the Act, and subsequent U.S. Treasury acquiescence in these decisions has made it a reliable tool for U.S. exporters.

Eligibility Requirements

To claim the status of a WHTC, under Section 921 of the 1954 Internal Revenue Code a domestic corporation must meet the following qualifications:

- Its entire business (other than incidental purchases) must be carried on within the geographical limits of North, Central, or South America and the West Indies.

- Its gross income for the 3-year period immediately preceding the close of the taxable year (or for such part of such period during which the corporation was in existence) is derived from (a) sources without the United States (95% or more), and (b) the active conduct of a trade or business (90% or more).

A corporation which meets these qualifications is taxed as any other domestic corporation except that, based on its status as a WHTC, it receives an additional deduction under Section 922 of $14/48$ th of its taxable income. The numerator of this fraction is always 14; the denominator equals the current total normal tax and surtax. This fractional computation is the same whether the corporation's taxable income subjects it to a combined normal tax and surtax, or to the normal tax only. The practical consequence is to tax a qualifying corporation on only about 70% of its profits.

The additional deduction, in effect, makes the surtax applicable only to taxable incomes over \$35,294.12, instead of \$25,000. A WHTC pays only 15.6% tax on its first \$35,300 of net profit and 34% on the excess, whereas domestic corporations ordinarily pay 22% tax on the first \$25,000 profit and 48% on the excess.

Geographic Limitations

All WHTC's must be domestic corporations created or organized in the United States under the laws of any state or the District of Columbia. An exception is made for corporations formed in Canada or Mexico solely to comply with the laws of those countries. Such a corporation is treated as a domestic U.S. corporation for purposes of qualifying for the preferential tax rate. To so qualify, the Mexican or Canadian corporation must be included in a consolidated return.

The applicable regulations do not explicitly state which countries or territories are considered to be within the Western Hemisphere. The United States and the countries in North, Central, and South America are considered to be within the limits in which a WHTC's entire business (other than incidental purchases) must be conducted. However, a series of rulings have expressly extended the geographical limits to include the Virgin Islands, the Bahamas, Puerto Rico, the Lesser and Greater Antilles, the islands off the shore of Venezuela, Newfoundland, and even Greenland. Bermuda and the Falkland Islands have been expressly excluded.

Section 921 specifically permits a corporation for taxable years beginning with January 1, 1954, to maintain its WHTC status although it makes "incidental purchases" outside the Western Hemisphere. Treasury Regulations have defined "incidental purchases" as those which are "minor in relation to the entire business" (those which do not exceed 5% of the corporation's gross receipts from all sources for the taxable year will be automatically deemed incidental) or those "non-recurring or unusual in character."

The Court of Claims in deciding a case—*Otis Elevator Co. v. United States* (1962)—concerning a 1950 return held that a corporation maintained its WHTC status although it received components from countries

outside the Western Hemisphere in an amount equal to 2 2/3% of the corporation's gross income. The Court was unable to apply the "incidental purchases" exception retroactively but nevertheless held that to deny this taxpayer WHTC status would "thwart the well-defined Congressional objective to encourage American corporations to engage in foreign trade." The Commissioner of Internal Revenue subsequently announced that he will no longer litigate the "entire business in the Western Hemisphere" requirement in pre-1954 cases in which the 5% limitation is not exceeded.

In *Topps of Canada, Ltd. v. Commissioner* (1962), the Tax Court upheld Treasury's Regulations concerning the interpretation of "incidental purchases" against the taxpayer's argument that the term meant "purchases incident to its business." In this case, the non-Western Hemisphere purchases amounted to 34% of the corporation's gross receipts. However purchases amounting to more than 5% of gross receipts need not disqualify a WHTC for such status under these regulations, especially if such purchases are unusual and nonrecurring in nature.

Gross Income

Gross income under the qualifying requirements mentioned earlier refers to a corporation's sales minus the cost of goods sold—not gross sales. The 3-year period applies only to corporations which have been in existence for 3 years. A new corporation may meet the 95% and 90% requirements for a period of less than 3 years if this shorter period includes its total period of existence. This permits a corporation to derive tax benefits from the date of its incorporation.

To qualify as a WHTC, a corporation must derive at least 95% of its gross income from "sources outside the United States." Exactly what constitutes "income from without" or "income from within" the United States is not defined in Section 921, but such determinations can be made under Sections 861-864.

For practical purposes, domestic manufacturers and processors are prevented from qualifying as WHTC's "income from the sale of personal property produced (in whole or part) by the taxpayer within and sold without the United States . . . shall be treated as derived partly from sources within and partly from sources without the United States." The Regulations include within the category of "production activity" creating, fabricating, extracting, curing, and aging. The determination of what portion constitutes income from within the United States is computed under the apportionment formula of the Regulations.

Income derived from the purchase of personal property within the United States and its sale without the United States is considered to be derived entirely from sources within the country in which it was sold. Therefore, to satisfy the 95% requirement, a corporation producing in the United States and selling outside will often find it necessary to form a separate selling subsidiary as a WHTC.

All transactions between the parent and the selling subsidiary must be on an "arm's length" basis. Other-

wise, the Commissioner may reallocate income and deductions between the two related corporations "to prevent evasion of taxes or clearly to reflect the income of either of the separate companies."

Consideration will be given to all the facts and circumstances involved in each case to determine whether a particular transaction is at "arm's length." As long as the profits are somewhat commensurate with the value of services performed by the two related firms, the statutory requirements should be satisfied.

Place of Sale

Court decisions have consistently held that the determination of sources of income is to be made in accordance with the "passage of title" test. Therefore, as long as title and beneficial ownership are assigned to pass outside the United States, negotiation and execution of the contract as well as the collection of the purchase price may take place within the United States.

Read about it in periodicals

U.S. firms interested in exporting as Western Hemisphere Trade Corporations will find additional information in the following articles:

The Western Hemisphere Trade Corporation: The Bountiful Tax Accident, by Anthony P. David, *Harvard International Law Journal*, Winter 1968 (vol. 10), pp. 101-149.

Western Hemisphere Trade Corporations: Reconsidered, by David L. Gibson, William and Mary Law Review, Fall 1967 (vol. 8), pp. 205-218.

Western Hemisphere Trade Corporation Act: The Need for Reassessment, by D. I. Wilson, *Journal of Law and Economic Development* (now *Journal of International Law and Economics*), May 1967 (vol. 2), pp. 208-290.

Advantages of Operating as a Western Hemisphere Trade Corporation, by Paul Seghers, *Practical Problems in Taxation of Foreign Operations*, Journal of Taxation, Inc., New York, 1965.

Western Hemisphere Trade Corporations, *Georgetown Law Journal*, Spring, 1965 (vol. 53), pp. 802-812.

Western Hemisphere Trade Corporation Allure Increased by 1964 Tax Reductions, by Paul Seghers, *Journal of Commerce*, March 31, 1964.

1962 Act Requires New Look at Role of WHTC in Export Field, by Julian O. Phelps, *Journal of Taxation*, July 1963, pp. 54-56.

The Western Hemisphere Trade Corporation: A Functional Perspective, by Leo J. Raskind, *Vanderbilt Law Review*, December 1962 (vol. 16), pp. 1031.

The Internal Revenue Service, however, has expounded unsuccessfully in several cases a "substance-of-the-sale" test which considers all the factors of the transaction. The Regulations explicitly state that the "substance-of-the-sale" test will be applied only to cases in which the sales transaction is arranged primarily for tax avoidance purposes.

In *Commissioner v. Pfaudler Inter-American Corp.* (1964), it was decided that the Commissioner's reliance on the "substance of the sale" provision of the Regulations was misplaced inasmuch as it was not tax avoidance when "retention of the title earned with it the risk of loss or damage to the goods prior to ultimate delivery as well as the benefits linked to reservation of control over the goods while in transit."

Subsequent to the Pfaudler case and another case, *Commissioner v. Hammond Organ Western Export Corp.* (1964), involving essentially the same question, the Commissioner announced that in future WHTC cases of a similar nature the place of sale would be "determined by the place where title to the property and other incidents of ownership passed to the buyer." Treasury's acceptance of these two 1964 decisions insure WHTC status for otherwise qualified corporations which carefully arrange their sales procedure to pass title and the risk of loss outside the United States.

A 1974 Revenue Ruling (74-249) illustrates the importance of the buyer's and seller's agreement in determining where passage of title occurs. In that case, the WHTC entered into a written agreement with its customers specifying that the seller retained title to the goods and assumed responsibility for shipment and risk of loss until the goods arrived at the foreign destination. By virtue of this agreement, the Commissioner ruled that titles passed outside the United States though the shipments were made under straight bills of lading which required delivery to an unrelated foreign party (in this case the customer). By means of a prior written agreement providing that responsibility for shipment and risk of loss was on the exporting WHTC, a straight bill of lading, which might ordinarily be interpreted as passing title in the United States, will pass muster as generating export income from sources outside the United States.

Active Conduct of a Business

Ninety percent or more of a WHTC's gross income must be derived from the "active conduct of a trade or business." This requirement prevents the WHTC from receiving more than 10% of its income from passive sources such as securities. The Regulations specifically state that "dividends received by a corporation do not represent income derived from the active conduct of a trade or business." Rents and royalties ordinarily would not qualify.

Section 921 does not explicitly require a permanent foreign establishment as a prerequisite for WHTC status. However, the Commissioner argued in two 1960 cases that such significant foreign penetration is implied in the term "trade or business" for qualification as a WHTC. Both court decisions maintained that export businesses without a permanent foreign establishment may be

eligible for the tax benefits accorded WHTC. Foremost consideration in these two decisions was given to the Congressional reenactment of the WHTC provisions in the 1954 Code with the knowledge that export companies were adapting their businesses to so qualify.

The Commissioner presented essentially the same argument in the Hammond Organ and Pfaudler cases, and again the courts found in favor of the taxpayer. In the Pfaudler case, the Court of Appeals For The Second Circuit emphatically stated that "the statutory provision clearly defines a WHTC . . . to include a corporation which has its place of business in the United States." The Commissioner has subsequently announced that the Internal Revenue Service will follow these decisions and will no longer argue that a WHTC must conduct its business outside the United States.

Tax Avoidance

The specific question of whether or not the deliberate formation of a subsidiary to qualify as a WHTC constituted tax avoidance was raised in recent cases. Both the Tax Court and the Court of Claims answered that it was not tax avoidance to so organize a corporation's business and sales procedure to qualify as a WHTC in order to gain tax benefits. It was felt that to hold otherwise would negate the Congressional objective of placing U.S. companies in a more advantageous competitive position.

Though official data for taxable years 1960-70 is incomplete, enough information is available for a reliable analysis of the decade.

The number of WHTC returns fluctuated between 608 in 1961 and 1,291 in 1968. Manufacturing WHTC's totaled 81 in 1961 and 223 in 1968. Some of these WHTC's are classified as manufacturing WHTC's, though their activities were principally exporting or furnishing services abroad, because they were included on consolidated returns with parent corporations whose dominant activity was manufacturing.

Total wholesale and retail WHTC's (the majority of which are U.S. exporting firms) decreased during the first part of the decade from 464 in 1960 to 345 in 1963. But their number started increasing in 1964 and 1965 and by 1968 had reached 726. It is widely believed that more WHTC's have been in existence than the available statistics indicate because consolidated returns filed by affiliated corporations were counted only as one return even though several of the affiliated firms were WHTC's.

Amount of Deductions

Deductions claimed by those WHTC's with at least some net income (numbering 666 in 1960, 598 in 1961, and 994 in 1968) have on the whole increased; i.e., from \$213 million in 1960 to a high of \$428 million in 1967. However, the deduction total dropped off to \$391 million in 1968 and \$289 million in 1970. The amount attributed to the manufacturing WHTC's has followed a similar curve, i.e., \$132.3 million in 1960, a high of \$317 million in 1967 and a decline to \$215 million in

1970. Deductions attributed to wholesale and retail WHTC's, on the other hand, declined slowly but steadily throughout the decade from \$22.1 million in 1960 and a high of \$22.6 million in 1961, to \$17.1 in 1968 and \$14.1 in 1970. The available statistics thus suggest that manufacturing WHTC's have been the primary beneficiaries of the special WHTC deduction during the 1960's. Court decisions in the early 1960's favorable to expanded use of WHTC's appear to have caused a spurt in their use, but the data suggest that the benefit from the WHTC levelled off and even declined somewhat in

1970. However, conclusions must remain tentative because complete revenue loss data are stale and current trends impossible to identify by this means.

The use of a WHTC is not entirely free from complications and uncertainties. However, it would appear that this form of doing business offers substantial tax savings to exporters with marketing operations in the Western Hemisphere. Tax counsel should be consulted to insure that business operations are carried on in such a manner as to meet the numerous formalities which the law requires.

DISC TAX DEFERRAL BENEFITS FOR EXPORTERS OUTLINED

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Exporters will want to become familiar with the provisions of the Internal Revenue Code of 1971 (Public Law 92-178, effective Jan. 1, 1972) which permit U.S. firms to establish Domestic International Sales Corporations (DISC's) entitled to a tax break on export income. This benefit is designed to permit manufacturers and nonmanufacturers, large and small, to generate a pool of tax-deferred earnings which can be utilized to expand and modernize export production facilities, intensify or initiate export promotion efforts, or provide more favorable credit terms to export customers.

In order to qualify as a DISC, a corporation is required to confine its activities almost entirely to export selling and certain related activities. As long as the DISC remains qualified, one half of its export income is deferred from taxation. However, this deferral only applies to that portion of its earnings which it retains and uses for export development purposes. Once a distribution to shareholders is made (and the law requires 50% of export income be deemed distributed) it is taxed to the shareholders at their normal rates. Therefore, the overall tax effect of the DISC is deferral of tax on 50% of export income, rather than exemption.

Company Example

Here is a simple example of how the DISC principle operates:

A company presently exporting establishes a DISC subsidiary, according to the laws of incorporation of one of the 50 states or the District of Columbia, to handle its export sales and certain other related activities. The new DISC must be capitalized at a minimum level of \$2,500. This minimum required capitalization is less than that usually required for incorporation, and has been permitted to facilitate the establishing of DISC's by small and medium size firms. Only one class of stock is permitted.

A corporation wishing to be treated as a DISC must file a statement of election (IRS form 4876) with the Internal Revenue Service within 90 days preceding the beginning of its taxable year, for a corporation already in existence, or within 90 days after the date of incorporation, if newly formed. All shareholders of the DISC must approve its election for tax deferral status.

In addition, the Internal Revenue Service regulations on DISC relax the normal standard of minimum

corporate substance usually applied to test whether a corporation has been established for tax avoidance purposes. According to IRS Regulation 1.992-1 (adopted September 24, 1974), a producer for export can set up a DISC subsidiary as either a principal or commission agent, but maintain the essential export sales, shipping, billing and collection functions in the parent. As long as the DISC meets the statutory requirements described above and, in addition, maintains its own bank account and accounting records, it will be considered a separate entity under the tax laws. A written agreement between the DISC and its parent is also required, in such circumstances, providing how the price payable by a DISC or the commission payable to the DISC will be determined (IRS Regulation 1.993-1(2)).

Once the DISC is established, it purchases goods from its parent, or from any domestic producer, to sell for ultimate use outside the United States. The DISC may also maintain sales and service facilities abroad to enhance its market penetration efforts or preserve its competitive position. A DISC normally makes a part of its retained earnings available to the parent, or other domestic manufacturers of export goods, in the form of "producer loans," for use in modernizing or expanding export production facilities.

To prevent the use of DISC profits for foreign investment, the legislation provides generally for the termination of tax deferral on DISC profits which are the subject of a producer's loan, if the profits are considered to be invested in foreign plant or equipment.

The amount considered invested in this manner is the net increase in foreign assets of members of the same controlled group as the DISC, acquired in taxable years beginning after December 31, 1971.

The following amounts may be used to offset increases in foreign assets for purposes of determining a controlled group's net increase in foreign assets: 1) one half the earnings of the foreign affiliates of the DISC and one half the fees and royalties paid to the DISC's corporate group; 2) the amount of debt or equity capital raised abroad by the group; 3) additions to foreign depreciation reserves; 4) the amount of stock or debt obligations of domestic members of the group, issued to unaffiliated foreign persons after January 1, 1968, to the extent they constitute a long-term foreign borrowing under the foreign direct investment program, less any actual foreign investment by domestic members of the

group during the period that the obligations are outstanding, and 5) the amount of liquid assets held abroad on October 31, 1971 in excess of reasonable working capital needs.

The DISC form of organization is adaptable to use by an export management company (EMC), in view of the similarity of functions between an EMC and a DISC. Special provision is also made for a U.S. controlled foreign corporation which qualified as an export trade corporation under section 970 of the Code for any 3 years beginning before November 1, 1971, to transfer its assets to a DISC without tax consequences during a taxable year beginning before January 1, 1976.

Certain types of corporations are ineligible to form DISCs because the combination of DISC deferral and special tax treatment normally accorded these corporations would be inappropriate. Those are tax exempt organizations, personal holding companies, banks, savings and loans and other similar financial institutions, insurance companies, mutual funds, China Trade Act Corporations and subchapter S corporations. In addition, a Western Hemisphere Trade Corporation (WHTC) cannot hold stock in a DISC, and sales from a DISC to an affiliated WHTC are not considered to be qualified export sales.

How Would It Qualify?

Basically, a corporation which elects to be a DISC will have to meet two major requirements, with regard to both income and assets, to qualify for and maintain its tax deferral status. At least 95% of its income must be from qualified export receipts, as defined in the legislation and regulations, and 95% of its assets must be export related. These tests were designed to ensure that income enjoying this special tax treatment is used expressly for export development purposes.

Qualified export receipts generally include income from the sale, lease, or rental of goods produced, grown, or extracted in the United States for ultimate use abroad. It also includes income from services related and subsidiary to such sale, lease or rental. Manufactured goods made with foreign components can only qualify if the value added in the United States equals or exceeds 50% of the fair market value of the product.

A corporation, to qualify for the DISC benefit, must:

- be a domestic corporation
- have at least 95% of its receipts from qualified export sales.
- have at least 95% of its assets in qualified form, i.e., used in export.
- have but one stock class
- have minimum capitalization of \$2,500
- make an election to be treated as a DISC.
- have a separate bank account
- keep separate books of account

The Tax Reduction Act of 1975 denies the DISC benefit to exports of mineral resources (including the energy resources, oil, gas, coal, and uranium), which are allowed a deduction for depletion. However, except for energy resources, subsequent processing or manufacturing which contributes at least 50% of the fair market value of the mineral export will qualify it for DISC treatment. The Act also excludes from the DISC products under short-supply control pursuant to the Export Administration Act of 1969.

Other qualified receipts, as stipulated in the Act, are gains from the sale of plant and equipment used in the corporation's export business; dividends from a foreign selling subsidiary of the DISC, interest on such obligations as accounts receivable arising in connection with qualified export sale, lease, or rental transactions, producer's loans and obligations issued, guaranteed, or insured by the Export-Import Bank (Eximbank); receipts from engineering and architectural services on foreign construction projects; and receipts for management services given other DISCs.

Qualified export assets are defined rather broadly to include export goods held as inventory, assets used primarily in connection with the sale, lease, rental, storage, handling, transportation, packaging, assembly or servicing of export goods or the performance of managerial, engineering or architectural services producing qualified export receipts; accounts receivable held by the corporation arising from qualified export activities; money and bank deposits needed to meet working capital requirements; certain loans made by the DISC to its parent or an unrelated export manufacturer; stock or securities of a related foreign export corporation.

Also qualifying as export assets are certain Export-Import Bank and Foreign Credit Insurance Association (FCIA) obligations; obligations of a domestic corporation organized solely to finance sales of export property under an agreement with Eximbank (e.g. Private Export Funding Corporation, "PEFCO"), where the loans are guaranteed by the Bank, and bank deposits which at the end of the taxable year, exceed reasonable working capital needs but are invested in qualified export assets within a specified period of time after the end of the taxable year.

Specifically excluded from the definition of qualified export assets is property leased or rented by a DISC for use by any member of a controlled group which includes the DISC. Also excluded are patents, inventions, models, designs, formulas or processes, copyrights (other than films, tapes, records, or similar reproductions for commercial or home use) goodwill, trademarks, trade brands, franchises or other similar property.

An escape valve has been provided in the legislation to prevent the inadvertent disqualification of a DISC which has not met the 95% export income and assets tests. By making a pro rata deficiency distribution to shareholders within 8 1/2 months of the close of the taxable year to bring its income and assets into line, a DISC which has maintained at least a 70% level in each category will be considered to have satisfied the gross receipts and assets tests.

Provision is also made for deficiency distributions after the 8-1/2 month deadline, where it is evident that

there is reasonable cause for failure to make the required distributions—as in the case of blocked foreign currency or expropriation. In this event, however, the corporation must pay a charge to the Internal Revenue Service, within 30 days of the date of distribution, of 4 1/2% of the amount distributed times the number of taxable years the distribution was delayed.

In order to avoid the uncertainties which often attend the application of pricing rules governing transactions between affiliated companies under Section 482 of the Internal Revenue Code, and to encourage the use of the DISC incentive, two additional alternative methods of the price determination are provided to permit a more liberal attribution of income to the DISC than the normal allocation on an arm's length basis.

The first rule allows an affiliated DISC to earn up to 4% of the gross receipts arising from a qualified DISC sale, plus 10% of the DISC's export promotion expenditures attributable to the sale. The second rule allocates to the DISC up to 50% of the combined taxable income of the DISC and the parent derived from the related export sales, plus 10% of the promotional expenses attributable to such sales.

Under this second method, special rules have been issued to permit marginal costing where a DISC is

attempting to establish or maintain a market for exports from the United States. This permits a DISC to earn a greater profit than it could under the full costing method. Basically, these rules provide that where the profit margin on export sales made through a DISC is lower than the average profit margin of the domestic and foreign sales of the same product or product line of the DISC and parent combined, taxable income of the DISC may be determined by taking into account only direct material, labor, and export promotion costs. The marginal costing rules do not apply to leases of property or the performance of any services, whether or not related and subsidiary to export sales (see IRS Regulation 1.994-2).

Enactment of the DISC represents recognition by the U.S. Government that exporting is of particular importance to the economic well-being of the nation, and that greater effort is needed on the part of both business and government to guarantee the international competitiveness of U.S. exports. Of course, each firm will have to determine, in conjunction with competent tax counsel, whether the DISC form of export sales organization will be desirable and profitable, depending on the economic circumstances prevailing in each case.